

SB

1 1 4

<TARGET><BILL>SB 114</BILL><SUBJECT>SB
114</SUBJECT><COMM>SSTA29</COMM></TARGET>

SENATE COMMITTEE REPORT First Committee of Referral

DATE: 2/1/16

FURTHER: Finance

Date of 5-Day Notice: 1/28/16
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/16/16

State Affairs Committee considered SPONSOR SUBSTITUTE FOR SENATE BILL NO. 114

SB 114-DEPOSITS INTO THE DIVIDEND FUND

"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; and providing for an effective date."

and recommends:

- be replaced with CS CS 574) [] Same Title [] New Title
- [] adopt previous CS Forthcoming _____) [] Same Title [] New Title
- [] attached amendment(
- [] adopt _____
- [] further referral to _____ Committee

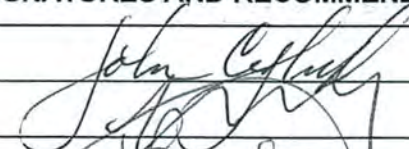
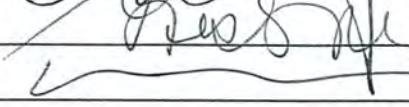
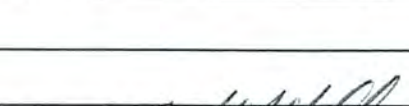
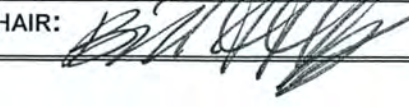
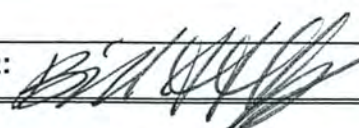
Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
EED	MVA
DEC	DNR
DFG	DPS
GOV	REV
DHS	DOT
AJS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

Fiscal Info Forthcoming

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #

[] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	No REC	AMEND
	COGHILL	<input checked="" type="checkbox"/>			
	HUGGINS			<input checked="" type="checkbox"/>	
	MCGUIRE	<input checked="" type="checkbox"/>			
	WIELECHOWSKI			<input checked="" type="checkbox"/>	
CHAIR: 	STOLTZE			<input checked="" type="checkbox"/>	

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

Senator Bill Stoltze, Chair
State Capitol, Room 125
Juneau, AK 99801-1182
Phone (907) 465-4958
Fax (907) 465-4928



Official Business

Members:
Sen. John Coghill, Vice Chair
Sen. Charlie Huggins
Sen. Lesil McGuire
Sen. Bill Wielechowski

State Affairs Committee

Schedule for: February 3 – February 7, 2016

Weekly Schedule

REVISED 2/2/16

+ Thursday, February 4, 2016 - 9:00 am - BUTROVICH - CAP 205

SB 114-DEPOSITS INTO THE DIVIDEND FUND

-- Presentation by Sponsor, Senator Lesil McGuire --

-- Testimony <Invitation Only> --

SB 128-PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

-- Testimony <Invitation Only> --

Presentations:

- Professor Emeritus Scott Goldsmith, UAA Institute of Social and Economic Research (ISER)
- Brad Keithley, Alaskans for Sustainable Budgets – “*A Way Forward on the Alaska Budget*”

<Bills Previously Heard/Scheduled>

+ Thursday, February 4, 2016 - 5:30 pm - BUTROVICH - CAP 205

SB 128-PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

-- Public Testimony --

Initial Statewide Public Testimony*

*Public testimony limited to 2 minutes

*Please go to and sign-in at your local LIO

*Limited number of Off-Net phone lines available.

--Off-Net Participation arrangements must be made through the chair's office prior to hearing.

-- Contact Chair's office by phone at 907-465-4958 for approval

*Public Testimony can be submitted in writing to the following email or fax addresses:

senate.state.affairs@akleg.gov or Fax to 907-465-4928

<Bills Previously Heard/Scheduled>

ALASKA STATE LEGISLATURE

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State Capitol, Room 125
Juneau, AK 99801-1182
Phone (907) 465-4958
Fax (907) 465-4928



Official Business

Members:
Sen. John Coghill, Vice Chair
Sen. Charlie Huggins
Sen. Lesil McGuire
Sen. Bill Wielechowski

State Affairs Committee

Schedule for: March 14 – March 20, 2016

Weekly Schedule

+ Tuesday, March 15, 2016 - 9:00 am - BUTROVICH - CAP 205

SCR 16-SPECIAL SESSION TO BE HELD ON ROAD SYSTEM
--Initial Presentation Only --

SB 114-PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

SB 128-PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

<Bills Previously Heard/Scheduled>

+ Thursday, March 17, 2016 - 8:30 am - BUTROVICH - CAP 205

SJR 1-CONST AM: GUARANTEE PERM FUND DIVIDEND

SB 114-PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

SB 128-PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

SB 144-RELOCATION ASSISTANCE FOR FED. PROJ/PROG
--Public Testimony--

<Bills Previously Heard/Scheduled>

ALASKA STATE LEGISLATURE

SENATE STATE AFFAIRS COMMITTEE

Senator Bill Stoltze, Chair
State Capitol, Room 125
Juneau, AK 99801-1182
Phone (907) 465-4958
Fax (907) 465-4928



Official Business

Members:
Sen. John Coghill, Vice Chair
Sen. Charlie Huggins
Sen. Lesil McGuire
Sen. Bill Wielechowski

February 4, 2016
Bill Packet Information

SB 114 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

- Sponsor Statement - SS for SB 114
- Sectional Analysis - *Version F*
- SS for SB 114 *Version F - Sponsor Substitute Version*
- SB 114 *Version W - Initial Version*
- Summary of Changes from Initial Version (*From W to F*)
- Backup Documents:
 - Sponsor Presentation to SSTA - 2-4-16
 - FCC Report on SB 161 (11th Legislature) - Defining royalty, rents, percentages, etc.
- Fiscal Notes:
 - DOR-APFC 01-29-16 (**Zero**)
 - DOR-PFD 01-28-16 (**Zero**)

PRESENTATIONS / INVITED TESTIMONY (Relating to SB 114 & SB 128)

- *"Accessing Permanent Fund Earnings to Reduce the Fiscal Gap"*
By Professor Emeritus Scott Goldsmith, UAA / ISER
- *"A Way Forward on the Alaska Budget"*
By Brad Keithley, Keithley Consulting & Alaskans for Sustainable Budgets

SB 128 PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

- Backup Documents:
 - LAW - AG Opinions (Formal & Informal) Regarding the PF & CBR

<Bills Previously Heard/Scheduled>

29th Alaska State Legislature

Session:
State Capitol, Room 121
Juneau, AK 99801
Phone: (907) 465-2995
Fax: (907) 465-6592



Interim:
716 W 4th Avenue, Room 515
Anchorage, AK 99501
Phone: (907) 269-0250
Fax: (907) 269-0249

Senator Lesil McGuire

Senate Bill 114

Summary of Changes SSSB 114 version F to CS to SSSB(STA) version U

Title Change

Page 1, Line 3-4

Insert: “; relating to the duties of the commissioner of revenue;”

- This was done to conform to Section 7.

Section 3

AS 37.13.140

Page 2, Line 21

Delete: “...as income is realized and received.”

Insert: “...excluding unrealized gains or losses.”

- This language conforms to other statutes regarding the Alaska Permanent Fund Corporation, and was done at their suggestion.

Page 2, Line 23-24

Delete: “...on July 1 of each year.”

Insert: “...under this subsection, computed annually for each fiscal year, following the conclusion of the fiscal year.”

- This change allows for the time consuming calculations by the APFC, and the close-out of the fiscal year accounting books.

Page 2, Lines 25-26

Insert “...may not be less than zero”

Page 2, Line 26

Delete: "five"

Insert "four and one half"

- This changes the Percent of Market Value draw from 5% to 4.5%

Page 2, Line 27

Delete "balance of the"

Page 2, Line 37

Delete "under"

Insert "in"

Page 2, Line 28 thru Page 3, Line 2

Delete "preceding five fiscal years including the fiscal year just ended, computed annually for each fiscal year in accordance with generally accepted accounting principles."

Insert "for the last five fiscal years immediately preceding the fiscal year just ended, reduced by the portion of production taxes and mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments and bonuses received by the state from mineral leases and deposited into the general fund in the fiscal year just ended that exceeds \$1,000,000,000."

- This change does two things:
 - 1) It provides a lag year for calculating the amount available for distribution.
 - 2) It sets a revenue limit on the amount of the POMV draw relative to other oil production and royalty revenue. If oil revenue exceeds \$1 Billion, the amount of the POMV draw from the ERA is reduced proportionality.

Section 5

AS 31.17.145(c)

Page 3, Lines 13-23

A new section amending AS 37.13.145(c)

This section states that the APFC may transfer from the earnings reserve account to the principle of the fund an amount sufficient offset inflation. However, it will not be used to increase the value of the portion of the principle attributed to the settlement of State v. Amerada Hess.

This section states that on July 1, the corporation shall make the following calculation to determine the amount available to offset inflation:

The amount available for distribution under AS 37.13.140(b) multiplied by 4 and subtracted from the balance of the earnings reserve. AS 37.13.140(b) is the maximum POMV draw (4.5%). If the earnings reserve account balance is more than four times the maximum POMV draw, then the difference can be used to offset inflation in the principle.

Section 6

Renumbered from section 5.

Section 7

Renumbered from Section 6.

Page 4, Line 13

Delete "a new subsection"
Insert "new subsections"

Page 4, Lines 14-22

AS 37.13.145 (e)

Delete "income"
Insert "subject to legislative appropriation, the corporation shall deposit funds"

Delete "fund; including the"

Delete "established under AS 34.13.145, shall be deposited by the corporation"

Delete "within 30 days after it is received"

Delete "determined by the corporation"
Insert "for that fiscal year"

Delete "for that"
Insert "on the last day of a"

Delete ".if"
Insert ", if"

Delete "a"
Insert "that"

Delete "fiscal year, on the last day of the"

The first change clarifies that the POMV withdraw is done by legislative appropriation from the earnings reserve account.

The rest the changes give the APFC flexibility to work with the Department of Revenue for the timing of transfers from the earnings reserve account to the general fund.

Page 4, Line 23- 31

AS 37.13.145 (f) and (g)

New subsections allowing the commissioner of the department of revenue to consult with the APFC Board and make recommendations to adjust the percentages of funds appropriated to the dividend. Also, it directs the commissioner to submit an annual report to the legislature evaluating the sufficiency of the assets in the earnings reserve account and the amount projected for distribution.

Section 8

AS 37.13.300(c)

Renumbered from section 7

Page 5, Line 11

Delete "income"

Insert "the amount"

Section 9

Renumbered from Section 8

Section 10

Renumbered from Section 9

Section 11

Renumbered from Section 10

Section 12

Renumbered from Section 11

Section 13

Renumbered from Section 12

Delete "and 37.13.145(c)"

AS 37.13.145(c) is no longer repealed. This is the section that deals with inflation proofing.

Section 14

Renumbered from Section 13.

Conforming changes

Section 15

Renumbered from Section 14

Conforming changes.

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR STOLTZE

TO: CSSSSB 114(STA), Draft Version "U"

1 Page 2, following line 8:

2 Insert a new bill section to read:

3 **** Sec. 2.** AS 37.13.010(a), as amended by sec. 1 of this Act, is amended to read:

4 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
5 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

6 (1) 25 percent of all mineral lease rentals, royalties, royalty sale
7 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue
8 sharing payments received by the state from mineral leases issued on or before
9 December 1, 1979, and 25 percent of all bonuses received by the state from mineral
10 leases issued on or before February 15, 1980;

11 (2) 50 percent of all mineral lease rentals, royalties, royalty sale
12 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral
13 revenue sharing payments received by the state from mineral leases issued after
14 December 1, 1979, and 50 percent of all bonuses received by the state from
15 mineral leases issued after February 15, 1980; and

16 (3) [(2)] any other money appropriated to or otherwise allocated by
17 law or former law to the Alaska permanent fund."

18

19 Renumber the following bill sections accordingly.

20

21 Page 3, following line 5:

22 Insert a new bill section to read:

23 **** Sec. 5.** AS 37.13.140, as amended by sec. 4 of this Act, is amended to read:

1 **Sec. 37.13.140. Income.** [(a)] Net income of the fund includes income of the
 2 earnings reserve account established under AS 37.13.145. **Net** [THE CORPORATION
 3 SHALL DETERMINE THE NET] income of the fund **shall be computed annually**
 4 **as of the last day of the fiscal year** in accordance with generally accepted accounting
 5 principles, **excluding any unrealized gains or losses. Income** [, EXCLUDING
 6 UNREALIZED GAINS OR LOSSES.

7 (b) THE CORPORATION SHALL DETERMINE THE AMOUNT
 8 AVAILABLE FOR DISTRIBUTION UNDER THIS SUBSECTION, COMPUTED
 9 ANNUALLY FOR EACH FISCAL YEAR, FOLLOWING THE CONCLUSION OF
 10 THE FISCAL YEAR. THE AMOUNT] available for distribution [MAY NOT BE
 11 LESS THAN ZERO AND] equals **21** [FOUR AND ONE HALF] percent of the **net**
 12 **income** [AVERAGE MARKET VALUE] of the fund [, INCLUDING THE
 13 EARNINGS RESERVE ACCOUNT ESTABLISHED IN AS 37.13.145,] for the **last**
 14 five fiscal years, **including** [IMMEDIATELY PRECEDING] the fiscal year just
 15 ended, **but may not exceed net income of the fund for the fiscal year just ended**
 16 **plus the balance in the earnings reserve account described in AS 37.13.145**
 17 [REDUCED BY THE PORTION OF PRODUCTION TAXES AND MINERAL
 18 LEASE RENTALS, ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT
 19 SHARES UNDER AS 38.05.180(f) AND (g), FEDERAL MINERAL REVENUE
 20 SHARING PAYMENTS, AND BONUSES RECEIVED BY THE STATE FROM
 21 MINERAL LEASES AND DEPOSITED INTO THE GENERAL FUND IN THE
 22 FISCAL YEAR JUST ENDED THAT EXCEEDS \$1,000,000,000]."

23
 24 Renumber the following bill sections accordingly.

25
 26 Page 3, following line 11:

27 Insert a new bill section to read:

28 "* **Sec. 7.** AS 37.13.145(a), as amended by sec. 6 of this Act, is amended to read:

29 (a) The earnings reserve account is established as a separate account in the
 30 fund. **Income** [EXCEPT FOR INCOME DEPOSITED INTO THE GENERAL FUND
 31 UNDER (e) OF THIS SECTION, INCOME] from the fund shall be deposited by the

1 corporation into the account as soon as it is received. Money in the account shall be
 2 invested in investments authorized under AS 37.13.120."

3
 4 Renumber the following bill sections accordingly.

5
 6 Page 4, following line 2:

7 Insert a new bill section to read:

8 "* **Sec. 9.** AS 37.13.145(c), as amended by sec. 8 of this Act, is amended to read:

9 (c) **after the transfer under (b) of this section, the** [THE] corporation **shall**
 10 [MAY] transfer from the earnings reserve account to the principal of the fund an
 11 amount **sufficient** to offset the effect of inflation on principal of the fund during that
 12 fiscal year. However, none of the amount transferred shall be applied to increase the
 13 value of that portion of the principal attributed to the settlement of State v. Amerada
 14 Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004.
 15 **The** [ON JULY 1, THE] corporation shall calculate the amount to transfer to the
 16 principal under this subsection by

17 **(1) computing the average of the monthly United States Consumer**
 18 **Price Index for all urban consumers for each of the two previous calendar years;**

19 **(2) computing the percentage change between the first and second**
 20 **calendar year average; and**

21 **(3) applying that rate to the value of the principal of the fund on**
 22 **the last day of the fiscal year just ended, including that portion of the principal**
 23 **attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ.**
 24 **(Superior Court, First Judicial District)** [MULTIPLYING THE AMOUNT
 25 AVAILABLE FOR DISTRIBUTION FOR THE PREVIOUS FISCAL YEAR
 26 UNDER AS 37.13.140(b) BY FOUR AND SUBTRACTING THE PRODUCT OF
 27 THAT CALCULATION FROM THE BALANCE OF THE EARNINGS RESERVE
 28 ACCOUNT ON JUNE 30 OF THE PREVIOUS FISCAL YEAR]."

29
 30 Renumber the following bill sections accordingly.

31

1 Page 4, following line 12:

2 Insert a new bill section to read:

3 **** Sec. 11.** AS 37.13.145(d), as amended by sec. 10 of this Act, is amended to read:

4 (d) Notwithstanding **(b)** [(e)] of this section, income earned on money
 5 awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ.
 6 (Superior Court, First Judicial District), including settlement, summary judgment, or
 7 adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or
 8 interest earned on the money, or on the earnings of the money shall be treated in the
 9 same manner as other income of the Alaska permanent fund, except that it is not
 10 available for distribution to the dividend fund or for transfers to the **principal**
 11 [GENERAL FUND] under **(c)** [(e)] of this section, and shall be annually deposited
 12 into the Alaska capital income fund (AS 37.05.565)."
 13

14 Renumber the following bill sections accordingly.

15

16 Page 4, following line 31:

17 Insert a new subsection to read:

18 "(h) At the end of each fiscal year, the corporation shall transfer from the
 19 earnings reserve account to the dividend fund established under AS 43.23.045, 50
 20 percent of the income available for distribution under AS 37.13.140."
 21

22 Page 5, following line 4:

23 Insert a new bill section to read:

24 **** Sec. 14.** AS 37.13.300(c), as amended by sec. 13 of this Act, is amended to read:

25 (c) Net income from the mental health trust fund may not be included in the
 26 computation of **net income** [THE AMOUNT] available for distribution under
 27 **AS 37.13.140** [AS 37.13.140(b)]."
 28

29 Renumber the following bill sections accordingly.

30

31 Page 5, following line 11:

1 Insert a new bill section to read:

2 **"* Sec. 16.** AS 37.14.031(c), as amended by sec. 15 of this Act, is amended to read:

3 (c) The net income of the fund shall be **determined** [COMPUTED
4 ANNUALLY] by the Alaska Permanent Fund Corporation **in the same manner the**
5 **corporation determines the net income of the Alaska Permanent Fund under**
6 **AS 37.13.140** [AS OF THE LAST DAY OF THE FISCAL YEAR IN
7 ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES,
8 EXCLUDING ANY UNREALIZED GAINS OR LOSSES]."
9

10 Renumber the following bill sections accordingly.

11
12 Page 6, following line 6:

13 Insert a new bill section to read:

14 **"* Sec. 18.** AS 43.23.025(a), as amended by sec. 17 of this Act, is amended to read:

15 (a) By October 1 of each year, the commissioner shall determine the value of
16 each permanent fund dividend for that year by

17 (1) determining the total amount available for dividend payments,
18 which equals

19 (A) the amount **of income of the Alaska Permanent Fund**
20 **transferred** [APPROPRIATED] to the dividend fund under **AS 37.13.145(h)**
21 [AS 37.13.015] during the current year;

22 (B) plus the unexpended and unobligated balances of prior
23 fiscal year appropriations that lapse into the dividend fund under
24 AS 43.23.045(d);

25 (C) less the amount necessary to pay prior year dividends from
26 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and
27 43.23.055(3) and (7);

28 (D) less the amount necessary to pay dividends from the
29 dividend fund due to eligible applicants who, as determined by the department,
30 filed for a previous year's dividend by the filing deadline but who were not
31 included in a previous year's dividend computation;

1 (E) less appropriations from the dividend fund during the
2 current year, including amounts to pay costs of administering the dividend
3 program and the hold harmless provisions of AS 43.23.075;

4 (2) determining the number of individuals eligible to receive a
5 dividend payment for the current year and the number of estates and successors
6 eligible to receive a dividend payment for the current year under AS 43.23.005(h); and

7 (3) dividing the amount determined under (1) of this subsection by the
8 amount determined under (2) of this subsection."
9

10 Renumber the following bill sections accordingly.
11

12 Page 6, following line 18:

13 Insert a new bill section to read:

14 **"* Sec. 21.** AS 43.23.045(d), as amended by sec. 20 of this Act, is amended to read:

15 (d) Unless specified otherwise in an appropriation act, the unexpended and
16 unobligated balance of an appropriation to implement this chapter lapses into the
17 dividend fund on June 30 of the fiscal year for which the appropriation was made and
18 **shall** [MAY] be used in determining the amount of and paying the subsequent year's
19 dividend as provided in AS 43.23.025(a)(1)(B)."
20

21 Renumber the following bill sections accordingly.
22

23 Page 6, following line 19:

24 Insert a new bill section to read:

25 **"* Sec. 23.** AS 37.13.015, 37.13.145(e), 37.13.145(f), 37.13.145(g); and AS 43.23.025(c)
26 are repealed July 1, 2018."
27

28 Renumber the following bill sections accordingly.
29

30 Page 6, line 22:

31 Delete "sec. 10"

1 Insert "sec. 17"

2

3 Page 6, line 23:

4 Delete "sec. 11"

5 Insert "sec. 19"

6

7 Page 6, lines 23 - 24:

8 Delete "sec. 12"

9 Insert "sec. 20"

10

11 Page 6, line 26:

12 Delete "sec. 10 - 12"

13 Insert "secs. 17, 19, and 20"

14

15 Page 6, following line 30:

16 Insert a new bill section to read:

17 "* **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

19 TRANSITION. (a) Notwithstanding AS 43.23.025(a), as amended by sec. 18 of this
20 Act, and AS 43.23.045(d), as amended by sec. 21 of this Act, the commissioner of revenue
21 shall determine the value of the permanent fund dividend distributed in 2018 under
22 AS 37.13.015, AS 43.23.025(a), 43.23.025(c), and 43.23.045(d), as those sections read on the
23 day before the effective date of secs. 18 and 21 of this Act.

24 (b) The commissioner of revenue and the Alaska Permanent Fund Corporation may
25 adopt regulations, policies, and procedures necessary to implement AS 43.23.025(a), as
26 amended by sec. 18 of this Act, and AS 43.23.045(d), as amended by sec. 21 of this Act. The
27 regulations, policies, or procedures may not take effect before the effective date of the law
28 implemented by the regulation, policy, or procedure."

29

30 Page 7, lines 2 - 3:

31 Delete "secs. 1 - 14 of this Act take effect after July 1, 2016, secs. 1 - 14"

1 Insert "secs. 1, 3, 4, 6, 8, 10, 12(e) - (g), 13, 15, 17, 19, 20, and 24 take effect after
2 July 1, 2016, secs. 8, 10 12(e) - (g), 13, 15, 17, 19, 20, and 24"

3

4 Page 7, following line 3:

5 Insert a new bill section to read:

6 "* **Sec. 27.** Sections 2, 5, 7, 9, 11, 12(h), 14, 16, 18, 21, and 23 of this Act take effect July 1,
7 2018."

8

9 Renumber the following bill sections accordingly.

10

11 Page 7, line 4:

12 Delete "Sections 14 and 15"

13 Insert "Sections 24 and 26"

14

15 Page 7, line 5:

16 Delete "sec. 16"

17 Insert "secs. 27 and 28"

Adopted without objection

Conceptual Amendment # 1
to Amendment #1

**CONCEPTUAL
AMENDMENT**

OFFERED IN THE SENATE by SENATOR(S): STOLTZE
STATE AFFAIRS COMMITTEE

TO: Amendment #1 (29-LS0883\U.1 – 3/14/16) to CS for SS for SB
114(STA) (29-LS0883\U – 3/14/16)

The provisions inserted through Amendment #1 which sunset the act within two years, shall be altered to reflect a 3 year sunset— extending the repeal / sunset provisions for one additional year.

Prepared by the Senate State Affairs Committee

Withdrawn in favor of U.3

29-LS0883\U.2
Gardner
3/15/16

Replacement

AMENDMENT #2

(Amendment #1)

By Senators:

OFFERED IN THE SENATE

LOGHILL, McGuire

TO: CSSSSB 114(STA), Draft Version "U"

1 Page 2, lines 9 - 15:

2 Delete all material and insert:

3 "* **Sec. 2.** AS 37.13 is amended by adding a new section to read:

4 **Sec. 37.13.015. Appropriations to the dividend fund.** (a) Following the
5 calculation under AS 37.13.140(b), the legislature may appropriate to the dividend
6 fund established in AS 43.23.045 the following amounts from the following funds:

7 (1) from the earnings reserve account established in AS 37.13.145,

8 (A) 15 percent of 21 percent of the sum of the net income of
9 the fund determined under AS 37.13.140(a) for each of the last five fiscal years
10 including the fiscal year just ended; and

11 (B) two percent of the market value of the constitutional budget
12 reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) calculated on
13 the last day of the fiscal year just ended; and

14 (2) from the general fund, 15 percent of the money deposited in the
15 general fund during the fiscal year just ended from all mineral lease rentals, royalties,
16 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral
17 revenue sharing payments, and bonuses received by the state from mineral leases.

18 (b) Nothing in this section creates a dedicated fund."
19

20 Page 2, line 29:

21 Delete "the portion"

22 Insert "an amount equal to 85 percent"

Adopted without objection

29-LS0883\U.3
Kirsch/Gardner
3/15/16

Replacement
AMENDMENT # 2

OFFERED IN THE SENATE

TO: CSSSSB 114(STA), Draft Version "U"

*By SENATOR(S): Coghill,
McGuire*

1 Page 2, lines 9 - 15:

2 Delete all material and insert:

3 **"* Sec. 2.** AS 37.13 is amended by adding a new section to read:

4 **Sec. 37.13.015. Appropriations to the dividend fund.** (a) Following the
5 calculation under AS 37.13.140(b), the legislature may appropriate to the dividend
6 fund established in AS 43.23.045 the following amounts from the following funds:

7 (1) from the earnings reserve account established in AS 37.13.145,

8 (A) 15 percent of 21 percent of the sum of the net income of
9 the fund determined under AS 37.13.140(a) for each of the last five fiscal years
10 including the fiscal year just ended; and

11 (B) two percent of the market value of the constitutional budget
12 reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) calculated on
13 the last day of the fiscal year just ended; and

14 (2) from the general fund, 15 percent of the money deposited in the
15 general fund during the fiscal year just ended from all mineral lease rentals, royalties,
16 royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral
17 revenue sharing payments, and bonuses received by the state from mineral leases.

18 (b) Nothing in this section creates a dedicated fund."
19

20 Page 2, line 29:

21 Delete "**the portion**"

22 Insert "**an amount equal to 85 percent**"

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
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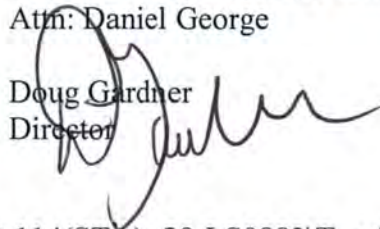
MEMORANDUM

March 16, 2016

SUBJECT: CSSSSB 114(STA); (Work Order No. 29-LS0883\T)

TO: Senator Bill Stoltze
Chair of the Senate State Affairs Committee
Attn: Daniel George

FROM: Doug Gardner
Director



In preparing CSSSSB 114(STA); 29-LS0883\T, with Brandon Brefczynski's permission, we fixed several technical issues that were in the amendment that was adopted by the committee to sunset the legislation. The corrections were in sec. 25 of the bill which is a transition section, where we added two bill sections which were inadvertently omitted, and in sec. 26 of the bill, which is a retroactivity section, where four bill sections in a string citation were omitted.

I want to advise you of these technical changes that were made to carry out the intent of the amendments that were adopted by the committee.

DDG:dla
16-291.dla

Attachment

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MEMORANDUM

March 14, 2016

SUBJECT: Sunset of amendments to sections addressing appropriations to the dividend fund and calculations of the amount available for distribution from the earnings reserve (CSSB 114(STA); Work Order No. 29-LS0883\U.1)

TO: Senator Bill Stoltze
Attn: Brandon Brefczynski

FROM: Lisa Moritz Kirsch 
Assistant Revisor

We have drafted the amendment you requested which will sunset the changes in SB 114 in July of 2018. As you know, the sections amended on the initial effective date of this bill provide direction for appropriations to the dividend fund, transfers between funds, and calculations of the amount available for distribution from the earnings reserve.

We have provided two transition sections that will allow the permanent fund dividend in the initial transition year to be calculated under the law as it exists today and in the sunset year to be calculated under the law as amended this year. However, there may be additional issues with the timing of calculations of earnings, transfers between funds, and appropriations to funds at the time of transition back to the law as it currently exists.

It may be worthwhile to discuss this issue with the Department of Revenue or the Permanent Fund Corporation for their input on the need for any additional transition provisions.

LMK:lem
16-247.lem

Attachment

29-LS0883\U
Gardner
3/14/16

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 114(STA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-NINTH LEGISLATURE - SECOND SESSION

BY THE SENATE STATE AFFAIRS COMMITTEE

Offered:

Referred:

Sponsor(s): SENATOR MCGUIRE

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska**
2 **permanent fund, and the earnings reserve account; relating to the mental health trust**
3 **fund; relating to deposits into the dividend fund; relating to the duties of the**
4 **commissioner of revenue; and providing for an effective date."**

5 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

6 * **Section 1.** AS 37.13.010(a) is amended to read:

7 (a) Under art. IX, sec. 15, of the state constitution, there is established as a
8 separate fund the Alaska permanent fund. The Alaska permanent fund consists of

9 (1) 25 percent of all mineral lease rentals, royalties, royalty sale
10 proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue
11 sharing payments received by the state from mineral leases [ISSUED ON OR
12 BEFORE DECEMBER 1, 1979,] and 25 percent of all bonuses received by the state
13 from mineral leases [ISSUED ON OR BEFORE FEBRUARY 15, 1980;

14 (2) 50 PERCENT OF ALL MINERAL LEASE RENTALS,

1 ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER
2 AS 38.05.180(f) AND (g), AND FEDERAL MINERAL REVENUE SHARING
3 PAYMENTS RECEIVED BY THE STATE FROM MINERAL LEASES ISSUED
4 AFTER DECEMBER 1, 1979, AND 50 PERCENT OF ALL BONUSES RECEIVED
5 BY THE STATE FROM MINERAL LEASES ISSUED AFTER FEBRUARY 15,
6 1980]; and

7 (2) [(3)] any other money appropriated to or otherwise allocated by
8 law or former law to the Alaska permanent fund.

9 * **Sec. 2.** AS 37.13 is amended by adding a new section to read:

10 **Sec. 37.13.015. Appropriations to the dividend fund.** The legislature may
11 appropriate to the dividend fund established in AS 43.23.045, 74.5 percent of all
12 mineral lease rentals, royalties, royalty sale proceeds, net profit shares under
13 AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by
14 the state from mineral leases and 74.5 percent of all bonuses received by the state from
15 mineral leases. Nothing in the section creates a dedicated fund.

16 * **Sec. 3.** AS 37.13.140 is amended to read:

17 **Sec. 37.13.140. Income.** (a) Net income of the fund includes income of the
18 earnings reserve account established under AS 37.13.145. **The corporation shall**
19 **determine the net** [NET] income of the fund [SHALL BE COMPUTED
20 ANNUALLY AS OF THE LAST DAY OF THE FISCAL YEAR] in accordance with
21 generally accepted accounting principles, **excluding unrealized gains or losses.**

22 **(b) The corporation shall determine the amount available for distribution**
23 **under this subsection, computed annually for each fiscal year, following the**
24 **conclusion of the fiscal year. The amount** [, EXCLUDING ANY UNREALIZED
25 GAINS OR LOSSES. INCOME] available for distribution **may not be less than zero**
26 **and equals four and one half** [21] percent of the **average market value** [NET
27 INCOME] of the fund, **including the earnings reserve account established in**
28 **AS 37.13.145,** for the [LAST] five fiscal years **immediately preceding** [,
29 INCLUDING] the fiscal year just ended, **reduced by the portion of production**
30 **taxes and mineral lease rentals, royalties, royalty sale proceeds, net profit shares**
31 **under AS 38.05.180(f) and (g), federal mineral revenue sharing payments, and**

1 bonuses received by the state from mineral leases and deposited into the general
2 fund in the fiscal year just ended that exceeds \$1,000,000,000 [BUT MAY NOT
3 EXCEED NET INCOME OF THE FUND FOR THE FISCAL YEAR JUST ENDED
4 PLUS THE BALANCE IN THE EARNINGS RESERVE ACCOUNT DESCRIBED
5 IN AS 37.13.145].

6 * **Sec. 4.** AS 37.13.145(a) is amended to read:

7 (a) The earnings reserve account is established as a separate account in the
8 fund. Except for income deposited into the general fund under (e) of this section,
9 income [INCOME] from the fund shall be deposited by the corporation into the
10 account as soon as it is received. Money in the account shall be invested in
11 investments authorized under AS 37.13.120.

12 * **Sec. 5.** AS 37.13.145(c) is amended to read:

13 (c) The [AFTER THE TRANSFER UNDER (b) OF THIS SECTION, THE]
14 corporation may [SHALL] transfer from the earnings reserve account to the principal
15 of the fund an amount [SUFFICIENT] to offset the effect of inflation on principal of
16 the fund during that fiscal year. However, none of the amount transferred shall be
17 applied to increase the value of that portion of the principal attributed to the settlement
18 of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial
19 District) on July 1, 2004. On July 1, the [THE] corporation shall calculate the amount
20 to transfer to the principal under this subsection by multiplying the amount available
21 for distribution for the previous fiscal year under AS 37.13.140(b) by four and
22 subtracting the product of that calculation from the balance of the earnings
23 reserve account on June 30 of the previous fiscal year

24 [(1) COMPUTING THE AVERAGE OF THE MONTHLY UNITED
25 STATES CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS FOR
26 EACH OF THE TWO PREVIOUS CALENDAR YEARS;

27 (2) COMPUTING THE PERCENTAGE CHANGE BETWEEN THE
28 FIRST AND SECOND CALENDAR YEAR AVERAGE; AND

29 (3) APPLYING THAT RATE TO THE VALUE OF THE
30 PRINCIPAL OF THE FUND ON THE LAST DAY OF THE FISCAL YEAR JUST
31 ENDED, INCLUDING THAT PORTION OF THE PRINCIPAL ATTRIBUTED TO

1 THE SETTLEMENT OF STATE v. AMERADA HESS, ET AL., 1JU-77-847 CIV.
2 (SUPERIOR COURT, FIRST JUDICIAL DISTRICT)].

3 * **Sec. 6.** AS 37.13.145(d) is amended to read:

4 (d) Notwithstanding (e) [(b)] of this section, income earned on money
5 awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ.
6 (Superior Court, First Judicial District), including settlement, summary judgment, or
7 adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or
8 interest earned on the money, or on the earnings of the money shall be treated in the
9 same manner as other income of the Alaska permanent fund, except that it is not
10 available for distribution to the dividend fund or for transfers to the **general fund**
11 [PRINCIPAL] under (e) [(c)] of this section, and shall be annually deposited into the
12 Alaska capital income fund (AS 37.05.565).

13 * **Sec. 7.** AS 37.13.145 is amended by adding new subsections to read:

14 (e) Under art. IX, sec. 15, Constitution of the State of Alaska, subject to
15 legislative appropriation, the corporation shall deposit funds from the earnings reserve
16 account into the general fund until the amount available for distribution for that fiscal
17 year under AS 37.13.140(b) has been deposited into the general fund. On the last day
18 of a fiscal year, if the actual net income of the fund for that fiscal year is less than the
19 amount of income available for distribution under AS 37.13.140(b) for that fiscal year,
20 the corporation shall deposit into the general fund the amount from the earnings
21 reserve account necessary to satisfy the amount of income available for distribution
22 for that fiscal year or the balance of the earnings reserve account, whichever is less.

23 (f) Each year, on or before January 30, the commissioner of revenue may,
24 after consultation with the board, recommend an adjustment to the percentages of
25 money appropriated under AS 37.13.015, based on a review of the assets of the fund.

26 (g) Each year, on or before January 30, the commissioner of revenue shall
27 provide to the legislature a report evaluating the sufficiency of the assets in the
28 earnings reserve account and the amount the commissioner projects to be distributed
29 under AS 37.13.140(b). The commissioner shall deliver the report to the senate
30 secretary and the chief clerk of the house of representatives and notify the legislature
31 that the report is available.

1 * **Sec. 8.** AS 37.13.300(c) is amended to read:

2 (c) Net income from the mental health trust fund may not be included in the
3 computation of **the amount** [NET INCOME] available for distribution under
4 **AS 37.13.140(b)** [AS 37.13.140].

5 * **Sec. 9.** AS 37.14.031(c) is amended to read:

6 (c) The net income of the fund shall be **computed annually** [DETERMINED]
7 by the Alaska Permanent Fund Corporation **as of the last day of the fiscal year in**
8 **accordance with generally accepted accounting principles, excluding any**
9 **unrealized gains or losses** [IN THE SAME MANNER THE CORPORATION
10 DETERMINES THE NET INCOME OF THE ALASKA PERMANENT FUND
11 UNDER AS 37.13.140].

12 * **Sec. 10.** AS 43.23.025(a) is amended to read:

13 (a) By October 1 of each year, the commissioner shall determine the value of
14 each permanent fund dividend for that year by

15 (1) determining the total amount available for dividend payments,
16 which equals

17 (A) the amount **appropriated** [OF INCOME OF THE
18 ALASKA PERMANENT FUND TRANSFERRED] to the dividend fund
19 under **AS 37.13.015** [AS 37.13.145(b)] during the current year;

20 (B) plus the unexpended and unobligated balances of prior
21 fiscal year appropriations that lapse into the dividend fund under
22 AS 43.23.045(d);

23 (C) less the amount necessary to pay prior year dividends from
24 the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and
25 43.23.055(3) and (7);

26 (D) less the amount necessary to pay dividends from the
27 dividend fund due to eligible applicants who, as determined by the department,
28 filed for a previous year's dividend by the filing deadline but who were not
29 included in a previous year's dividend computation;

30 (E) less appropriations from the dividend fund during the
31 current year, including amounts to pay costs of administering the dividend

1 program and the hold harmless provisions of AS 43.23.075;

2 (2) determining the number of individuals eligible to receive a
3 dividend payment for the current year and the number of estates and successors
4 eligible to receive a dividend payment for the current year under AS 43.23.005(h); and

5 (3) dividing the amount determined under (1) of this subsection by the
6 amount determined under (2) of this subsection.

7 * **Sec. 11.** AS 43.23.025 is amended by adding a new subsection to read:

8 (c) If the value of each permanent fund dividend calculated under (a) of this
9 section results in a dividend for each eligible individual that is less than \$1,000, then
10 the legislature may appropriate from the earnings reserve account established in
11 AS 37.13.145 an amount necessary to pay each eligible individual a permanent fund
12 dividend of \$1,000.

13 * **Sec. 12.** AS 43.23.045(d) is amended to read:

14 (d) Unless specified otherwise in an appropriation act, the unexpended and
15 unobligated balance of an appropriation to implement this chapter lapses into the
16 dividend fund on June 30 of the fiscal year for which the appropriation was made and
17 may [SHALL] be used in determining the amount of and paying the subsequent year's
18 dividend as provided in AS 43.23.025(a)(1)(B).

19 * **Sec. 13.** AS 37.13.145(b) is repealed.

20 * **Sec. 14.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 TRANSITION. (a) Notwithstanding AS 43.23.025(a), as amended by sec. 10 of this
23 Act, AS 43.23.025(c), added by sec. 11 of this Act, and AS 43.23.045(d), as amended by sec.
24 12 of this Act, the commissioner of revenue shall determine the value of each permanent fund
25 dividend for the 2016 dividend year under AS 43.23.025 and 43.23.045(d), as those sections
26 read on the day before the effective date of secs. 10 - 12 of this Act.

27 (b) The commissioner of revenue and the Alaska Permanent Fund Corporation may
28 adopt regulations, policies, and procedures necessary to implement this Act. The regulations,
29 policies, or procedures may not take effect before the effective date of the law implemented
30 by the regulation, policy, or procedure.

31 * **Sec. 15.** The uncodified law of the State of Alaska is amended by adding a new section to

1 read:

2 RETROACTIVITY. If secs. 1 - 14 of this Act take effect after July 1, 2016, secs. 1 -
3 14 of this Act are retroactive to July 1, 2016.

4 * **Sec. 16.** Sections 14 and 15 of this Act take effect immediately under AS 01.10.070(c).

5 * **Sec. 17.** Except as provided in sec. 16 of this Act, this Act takes effect July 1, 2016.

29th Alaska State Legislature

Session:
State Capitol, Room 121
Juneau, AK 99801
Phone: (907) 465-2995
Fax: (907) 465-6592



Interim:
716 W 4th Avenue, Room 515
Anchorage, AK 99501
Phone: (907) 269-0250
Fax: (907) 269-0249

Senator Lesil McGuire

Sponsor Statement

Sponsor Substitute for Senate Bill 114

“An act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; and providing for an effective date.”

The legislature is often confronted with the hardest decisions to make, and as leaders, this cannot be avoided. In tough budget times, we must ensure that the state is on solid financial footing. That is why I am proposing a long-term solution to the state’s vulnerability to volatile oil prices, Sponsor Substitute for Senate Bill 114.

SS for SB 114 will not, by itself, solve the entire budget deficit, but it will get us at least half of the way there and provide for a degree of stability, all while maintaining downward pressure on spending. This bill changes where the funds for the Dividend come from and what funds are available for government services. It is not a raid on the Permanent Fund, and it would reduce the need for new taxes.

Currently, 30% of all royalties and rents from oil and gas go into the Permanent Fund, and 0.5% goes into the School Trust Fund. This leaves 69.5% of all royalties to go into the General Fund.

SS for SB 114 proposes to revert to the constitutionally mandated 25% of royalties to deposit into the Permanent Fund and to shift the remaining 74.5% to the Dividend Fund. The Dividend would then be decoupled from the Permanent Fund, and a guarantee that the Dividend will not fall below \$1,000 would be in place. For 2016 the Dividend would be unaffected and remain above \$2,000.

Instead of royalties the General Fund would utilize a portion of the Permanent Fund: 5% of the total value of the fund would be deposited into the General Fund. This would result in a net increase of nearly \$2 Billion to the General Fund, significantly closing the fiscal gap.

This bill does three things that are important: it protects the Permanent Fund, ensures a Dividend, and cuts the deficit in half. This model provides stability to the budget, and allows Alaska’s vast endowment to work in smart ways for us.

It is for these reasons that I have introduced SB114, and I humbly ask for your support.

29th Alaska State Legislature

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Juneau, AK 99801
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Fax: (907) 465-6592



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Phone: (907) 269-0250
Fax: (907) 269-0249

Senator Lesil McGuire

SS for SB 114 "Permeant Fund: Earnings, Deposits and Accounts." Sectional Analysis 29-LS0883\F

Section 1. AS 37.13.010(a)

- This section amends AS 37.13.010(a) to reduce the share of mineral lease rentals, royalties, royalty shale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from certain mineral leases contributed to the permanent fund from 50 percent to 25 percent.
 - Previously, the contribution rate had been set at 50 percent of mineral lease bonuses (except from the Beaufort Sea, which had been left at 25 percent) and 50 percent of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay had been at 25 percent.
 - The dates listed in sub-sections (1) and (2) carve out the different geographical lease sales at the time of the Free Conference Committee Report of the Eleventh Alaska State Legislature for the HCS for SB 161, which chose to apply different percentages to mineral lease rents, royalties, etc., from each area.
 - The distinction is that AS 37.13.010(a)(1) addresses the Prudhoe Bay leases, and (a)(2) addresses the Beaufort Sea leases.

Section 2. AS 37.13.015

- This section adds a new section that allows the legislature to appropriate 74.5 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from mineral leases to the dividend fund.

Section 3. AS 37.13.140

- This section deletes references to income available for distribution from the earnings reserve account for the purpose of the dividend.
 - Under this proposed bill, the dividend would be decoupled from the permanent fund and issued from the dividend fund (section 2) which consists of 74.5 percent of royalties etc..
 - The dividend would no longer come from the earnings reserve account.
- Paragraph (a) defines “income” within the Earnings Reserve Account as “net income” and is determined as the income is realized and received.
- Paragraph (b) modifies the method for determining the funds (amount) available for distribution. Under this proposed legislation, five (5) percent of the average market value of the Permanent Fund (including the Earnings Reserve Account) for the preceding five (5) fiscal years would be available for distribution to the General Fund.

Section 4. AS 37.13.145(a)

- This section excludes from the Earnings Reserve Account income deposited to the general fund under Section 6.

Section 5. AS 37.13.145 (d)

- This section conforms to Sec. 6 and maintains the exception that money received under the *State v. Amerada Hess* case is not available for distribution or transfer to the general fund, as provided in Sec. 6 of the bill.

Section 6. 37.13.145 (e)

- Adds a new subsection to require the Alaska Permanent Fund Corporation transfer from the Earnings Reserve Account to the General Fund the amount available for distribution, five (5) percent of the average market value of the permanent fund during the preceding five (5) fiscal years within thirty (30) days after it is received. If the amount available for transfer is less than the amount, the corporation is required to transfer the lesser of the amount needed for distribution or the balance of the Earnings Reserve account to the general fund.

Section 7. AS 37.13.300 (c)

- Makes a conforming amendment to clarify that net income from the Mental Health Trust Fund is not included in the computation of income available for distribution under Sec. 3 of the bill, AS 37.13.140(b).

Section 8. AS 37.14.031 (c)

- Conforms to Sec 3, so that the net income of the Permanent Fund continues to be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

Section 9. AS 43.23.025(a)

- Makes conforming amendments for determining the value of the dividend under Sec. 2 of the bill.

Section 10. AS43.23.025 (c)

- Adds a new subsection that specifies that if the value of each dividend is below (less than) \$1,000 then the legislature *may* appropriate from the earnings reserve account an amount necessary to pay each eligible applicant a dividend of \$1,000.
 - This effectively allows the legislature to guarantee a \$1,000 floor to the amount of the dividend, subject to appropriation.

Section 11. AS 43.23.045(d)

- Changes “shall” to “may”, related to the use of lapsed funds for dividend payments.

Section 12. Repeals AS 37.13.145(b) and AS 37.13.145(c)

- AS 37.13.145(b) relates to transfers from the Earnings Reserve Account to the dividend fund
- AS 37.13.145(c) relates to transfers from the Earnings Reserve Account into the Principle of the Permanent Fund for inflation proofing.

Section 13.

- Provides a transitional section directing the commissioner of revenue to calculate the value of the 2016 permanent fund dividend under AS 43.23.025 and 43.23.045(d) as they read on the day before the effective dates of sections 9-11 of this act.
 - This would allow the 2016 Dividend to remain status quo.
 - New calculations for the amount of the dividend would affect the 2017 Dividend.
- Authorizes the Permanent Fund Corporation to adopt regulations necessary to implement the Act.

Section 14.

- Provides that if secs. 1-13 of this Act take effect after July 1, 2016, that secs. 1-13 of this Act are retroactive to July 1, 2016.

Section 15.

- Provides for an immediate effective date of secs 13 and 14.

Section 16.

- Provides an effective date of July 1, 2016, except for the immediate effective date provided for secs. 13 and 14 in sec. 15 of the Act.

29th Alaska State Legislature

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Senator Lesli McGuire

Senate Bill 114

Summary of Changes SB 114 version W to SS for SB version F

Section 1. AS 37.13.101 (a)

- Language was deleted that differentiated between leases issued on or before certain dates. There had previously been a distinction between leases issued for the Prudhoe Bay area and the Beaufort Sea area and different royalty rates had applied.

Section 3. AS 37.13.140

- Two different subsections were created in order to differentiate between the way that the corporation determines income and to explain the calculation of the distribution.
 - Subsection (a) directs the corporation to determine “net income” as it is realized and received.
 - Subsection (b) directs the corporation to determine the amount for distribution at the beginning of the fiscal year and that it shall be five (5) percent of the average market value of the permanent fund, including the earnings reserve, for the preceding five (5) fiscal years.

Section 4. AS 37.13.145

- Section 4 was renumbered to Section 5.
- The new Section 4 establishes that income from the earnings reserve that will be deposited into the general fund shall be deposited into that fund rather than remain within the earnings reserve.

Section 5. AS 37.13.145

- Formerly Section 4

Section 6.

- Formerly Section 5. AS 37.13.145 (e)
 - Language was changed to reflect that the deposits from the earnings reserve to the general fund shall take place within thirty (30) days after they are received until the amount determined for distribution has been achieved.

Section 7.

- Formerly Section 6

Section 8.

- A new section was added to clarify that the corporation shall compute annually the net income of the fund excluding unrealized gains or losses.

Section 9.

- Formerly Section 7
-

Section 10.

- Formerly Section 8

Section 11.

- Formerly Section 9

Section 12.

- A new section was added to repeal language relating to transfers from the earnings reserve to the dividend fund and to the principle for inflation proofing.

Section 13.

- A new Section: Transition language.
 - Subsection (a) allows the 2016 dividend to be calculated by current methodology. The change to the dividend calculation would come for the 2017 dividend year.
 - Subsection (b) The Commissioner of Revenue and the Alaska Permanent Fund Corporation may adopt regulations, policies and procedures necessary to implement this Act.

Section 14.

- New Section: Statement of Retroactivity

Section 15.

- New Section: effective date

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 114
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB114-DOR-APFC-01-29-15
Title: PERM FUND: EARNINGS, DEPOSITS,
ACCOUNTS
Sponsor: MCGUIRE
Requester: Senate State Affairs Committee

Department: Department of Revenue
Appropriation: Alaska Permanent Fund Corporation
Allocation: APFC Operations
OMB Component Number: 109

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017 Appropriation Requested	Included in Governor's FY2017 Request	Out-Year Cost Estimates					
			FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
---------------------------	--	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Prepared By: Laura Achee
Division: Alaska Permanent Fund Corporation
Approved By: Angela Rodell
Agency: Alaska Permanent Fund Corporation

Phone: (907)796-1522
Date: 01/29/2016 12:00 AM
Date: 01/29/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SB 114

Analysis

SB 114 would lower the amount of mineral royalties deposited into the Permanent Fund to the Constitutionally mandated 25 percent, and would remove the dividend calculation and transfer from the earnings reserve account. The bill would also require that the lesser of a five percent of the trailing five year average of the Permanent Funds value or the balance of the earnings reserve account be transferred to the general fund. These changes would not affect the operations of the Alaska Permanent Fund Corporation.

Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 114
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB114-DOR-PFD-01-28-16
Title: PERM FUND: EARNINGS, DEPOSITS,
ACCOUNTS
Sponsor: MCGUIRE
Requester: Senate State Affairs

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Permanent Fund Dividend Division
OMB Component Number: 981

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2016) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Prepared By: Sara Race, Director
Division: Permanent Fund Dividend
Approved By: Jerry Burnett, Deputy Commissioner
Agency: Department of Revenue

Phone: (907)465-4785
Date: 01/29/2016 03:30 PM
Date: 01/29/16

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SB 114

Analysis

Bill Analysis

The proposed legislation will alter the method in which funds are made available to calculate the annual dividend. Instead of a transfer of income from the Alaska Permanent Fund Corporation the dividend fund will be replenished by an amount appropriated by the legislature in the newly added section 37.13.015.

Although the way in which funds become available to disburse dividends is important, the proposed changes that will directly impact the calculation process are; (1) having additional funds available if the annual estimated dividend amount were to fall short of a \$1000.00 and (2) the potential of an unobligated balance on June 30 of the fiscal year being appropriated rather than carried forward to the subsequent fiscal year.

Annually, the dividend amount is calculated in mid-September for the first payment distribution, which gets paid near the beginning of October. If an additional amount was necessary to reach a \$1000.00 per dividend threshold, the additional appropriated funds would need to be accessible as needed to pay eligible Alaskans.



POUCH V
JUNEAU, ALASKA 99811
OFFICIAL BUSINESS

Alaska State Legislature

FREE CONFERENCE COMMITTEE REPORT

FCCS for HCS for SB 161

In making their decision on the Alaska Permanent Fund, the Free Conference Committee has focused on a single question --- the management of the Fund's principal.

It is to be an inviolate trust which, in the words of this bill, conserves "...a portion of the state's revenues from mineral resources to benefit all generations of Alaskans..." (page 4).

It is to be an independent trust, yet made accountable in various ways to "...maintain safety of principal while maximizing total return..." (page 4).

The contribution rate has been set at 50% of mineral lease bonuses (except from the Beaufort Sea, which has been left at 25%) and 50% of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay remains at 25% plus any other money appropriated annually by the Legislature.

Three major concerns --- safety of principal, accountability, and legislative oversight --- are addressed by the legislation.

Safety of Principal

The Free Conference Committee Permanent Fund bill provides a framework for fiscally conservative and responsible management of the Fund's principal. It assures and emphasizes the safety of the assets while providing the responsible managers with sufficient investment latitude to achieve superior results. Under the terms of this bill, the Alaska Permanent Fund would consist of a wide variety of quality, high-grade investments.

The Fund is designed to be a trust which focuses on the safety of principal first and the maximization of earnings second (page 4). It is a trust held to a more restricted list of investments than most other fiduciary trusts including the Alaska State Pension Funds and it confirms in law the

current state practice of evaluating performance according to nationally recognized and accepted standards. The investment managers are required to maintain investment diversification and are allowed to determine the investment mix of short, intermediate, and long-term investments. The flexibility allowed enables the managers to achieve a sound rate of return on investments.

The bill provides the investment managers with the authority to place funds in direct obligations of the United States Treasury, federal agency securities, certificates of deposit, high-grade corporate bonds, quality short-term investments, and federally guaranteed loans (pages 8-9). The fund is directed to give preference to Alaska investments as long as they meet the standards of quality set out in the bill. Specifically, deposits can be made in Alaska banks, mutual savings banks, savings and loan associations, and credit unions. Residential real estate (owner-occupied single family dwellings, duplexes, and condominiums) may also be purchased if the mortgage is privately insured by a company doing business in Alaska (page 9). The order in which the investments are listed is not meant to express a priority for one type of investment over another.

Importantly, the bill has a minimum of investment restrictions yet provides a very definite and certain framework. It does not authorize investments in stock or bullion, restricts the purchase of corporate bonds to 25% of the Fund's total investments, and limits the purchase of loans and mortgages to 25% of the total. Purchases of residential mortgages may be a further 15% of total assets. The bill allows the Fund to use the futures market to protect investments from the severe declines in value that are being suffered today. These futures contracts, however, may be used only to hedge and not to speculate. The bill also prohibits the Fund from either borrowing or guaranteeing the obligations of others (page 8).

The bill also provides for the handling of gains and losses and income (page 11). Any losses not offset by gains on the sale of securities shall be deducted from income and added to the Fund principal; this protects the Fund principal from erosion. Losses from sales of securities are spread over a period of time equal to the remaining life; this encourages the managers to get rid of bad investments. Capital gains are added to the Fund principal, helping to offset the effects of inflation. The Fund income is defined as the interest received on the investments, and the amount of income available for disbursement will be determined on an averaging basis; this insures a relatively steady income flow.

Accountability

It was the aim of the Committee to establish a management system for the Alaska Permanent Fund which would be protected from political influences but, at the same time, responsive to changes in state policy and accountable to the people through their elected officials. In short, the aim was insulation without isolation. It was agreed that the best way of achieving these ends was not to place the management within the Department of Revenue, but to create a public corporation distinct from state government. Although the Department of Revenue currently manages the pension funds as well as the general fund, it was agreed that the Permanent Fund, with its fundamentally different goals and large size, should not be in the hands of the same people whose primary duty is managing money for day-to-day use by the state. The Corporation is placed within the Department of Revenue for administrative matters such as payroll, but has a legal existence independent of and separate from the state.

The proposed Permanent Fund Corporation, therefore, has its own board of trustees which is made accountable in several ways (page 5). The six members of the board will be appointed by the Governor and consist of the Commissioner of Revenue, two other commissioners, and three public members. They will be confirmed by the Legislature, except for the Commissioner of Revenue who serves by right of his office; the other commissioners are to submit to a separate confirmation for their duties as trustees. Terms are three years; staggered, and members may be reappointed subject to confirmation. Members may be removed from the board by the Governor and the Legislature may override this decision in a Joint Session. The public members of the board may not hold any other state or federal office or employment and must have recognized competence and wide experience in finance, investments, or other business management-related fields. They are subject to the conflict of interest law and must disclose any interest in entities in which corporate assets are invested. They will be paid honorariums competitive with the largest private corporations in the state. It is intended that every two years the Governor shall make recommendations on adjusting the level of the honorarium. The board will employ an executive director who is also subject to the conflict of interest law and responsible for hiring additional staff with the board's approval.

The corporation's operating budget is from the general fund and is subject to the Executive Budget Act (page 10). This provision offers another check on the management and will prevent such things as the hiring of excessive numbers of employees or uncontrolled expense accounts.

Among the board's responsibilities is the publishing of a yearly report (page 11) including a financial statement reviewed by independent auditors, a statement of earnings from each investment, a market-value appraisal of the investments, and a performance evaluation with recommendations for needed changes. These reports, which must be written in easily understandable language, will be available to the Governor, the Legislature, and the public. The income statement and balance sheet will be published yearly in newspapers and every two years in the election pamphlet.

The bill thus insures that the board of trustees of the Alaska Permanent Fund Corporation will be the best investment managers available in the state, will be accountable to both the executive and legislative branches through appointment and budget processes and oversight by the Legislative Budget and Audit Committee, and will keep the public informed about the Fund's investment performance.

Legislative Oversight

The Free Conference Committee found a need for coordinated, continuing oversight of all the state's investment efforts. Accordingly, the review will extend beyond the Alaska Permanent Fund to include the Alaska Renewable Resources Fund, loan programs, the several authorities, and the general fund. As well as building up a body of legislators with detailed knowledge of investments, this new approach will give the Legislature and the broad public better information on the policies and efficiency of the various investment agencies, on the extent to which these agencies conform to statutory intent, and on the extent to which the economic and social goals of the various programs are being achieved.

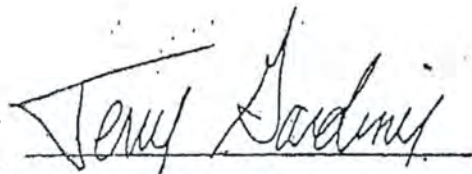
The House Finance Committee had considered providing in the Permanent Fund bill for a new interim committee to handle this oversight function but decided, in the interest of efficiency, to simply expand the powers and duties of the present Legislative Budget and Audit Committee (pages 1-3). As proposed, the Legislative Budget and Audit Committee will review the plans and reports of all state agencies involved in lending or investing, report to the Legislature its findings and recommendations, and provide for audits and performance evaluations of the Alaska Permanent Fund Corporation's investment program.

It is the Committee's intent, however, that these new duties be assigned to the Legislative Budget and Audit Committee on a trial basis and that the committee report back to the Legislature within two years, recommending how best the oversight duty could be carried out and including

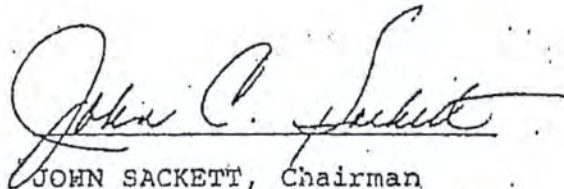
consideration of the option of delegating the responsibilities to a separate committee.

The Future

As stated earlier, this bill addresses only the question of Fund management and leaves the separate question of how to use the Fund earnings to separate legislation. It merely assures that there will be income and does not preclude any options for its use. Unless another determination is made, the Permanent Fund earnings will be deposited in the general fund. No matter what use(s) are decided for the income, the very establishment of a secure trust will be a sign to the national financial community that Alaska is following a responsible fiscal policy.



TERRY GARDINER, Chairman
Conference Committee



JOHN SACKETT, Chairman
Conference Committee



LAWS OF ALASKA

1980

Source

FCCSSB 161

Chapter No.

18

AN ACT

Relating to the Alaska permanent fund; to nonrenewable resource revenues; to legislative oversight; and providing for an effective date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

THE ACT FOLLOWS ON PAGE 1, LINE 10

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: April 8, 1980
Actual Effective Date: April 9, 1980 except for Section 10 which takes effect upon transfer of the Alaska permanent fund to the Alaska Permanent Fund Corporation.

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AN ACT

Relating to the Alaska permanent fund; to nonrenewable resource revenues; to legislative oversight; and providing for an effective date.

* Section 1. FINDINGS. The legislature finds that there is a substantial need for oversight of the performance of those agencies of the state which perform lending or investment functions since those functions do not receive the detailed review to which other expenditures of public money are subject, and therefore the knowledge necessary for sound legislation in this area is not readily available. There is a need for legislative oversight which will provide information on the policy and performance of these agencies, the extent to which the agencies conform to statutory intent, and the impact of their performance on the economy and the state treasury.

* Sec. 2. AS 24.20 is amended by adding new sections to read:

Sec. 24.20.156. PURPOSES. The purposes of the Legislative Budget and Audit Committee include

- (1) monitoring and reporting
 - (A) the performance of the agencies of the state which perform lending or investment functions,
 - (B) the extent to which the performance of these agencies has contributed to the fiscal, financial, economic and social improvement of the state and its citizens,
 - (C) the extent to which these agencies and the executive have prepared and coordinated short-term and long-term economic,

Chapter 13

Fiscal, investment and financial planning;

(2) holding these agencies accountable to statutory intent in their performance by recommending, where appropriate, changes in policy to the agencies or changes in legislation to the legislature;

(3) annually reviewing the extent of capitalization of the investment funds of the state and alternative investment policy for the general fund surplus and recommending needed legislation.

Sec. 24.20.206. DUTIES. The Legislative Budget and Audit Committee shall

(1) report to the legislature its recommendations relating to the confirmation of appointees to the Board of Trustees of the Alaska Permanent Fund Corporation and the Board of Trustees of the Alaska Renewable Resources Corporation;

(2) annually review the long-range operating plans of all agencies of the state which perform lending or investment functions;

(3) review periodic reports from all agencies of the state which perform lending or investment functions;

(4) present a complete report of investment programs, plans, performance, and policies of all agencies of the state which perform lending or investment functions to the legislature within 30 days after the convening of each regular session;

(5) present to the legislature within 30 days after the convening of each regular session a review of the report of the governor under AS 37.07.020(d) with recommendations for needed legislation;

(6) in conjunction with the finance committee of each house recommend annually to the legislature the investment policy for the general fund surplus and for the income from the permanent fund;

(7) provide for an annual post audit and annual operational and performance evaluation of the Alaska Permanent Fund Corporation in-

vestments and investment programs.

Sec. 24.20.209. RECORDS. The Legislature shall keep a complete file of all reports presented by it to the legislature.

* Sec. 3. AS 24.20.201(a) is amended by (9) hold public hearings on of the Board of Trustees of the Alaska the members of the Board of Trustees of Corporation;

(10) make recommendations to of the state which perform lending or : the structure and operating practices ;

(11) enter into and enforce : ble for the functions of the committee

* Sec. 4. AS 37.07.020 is amended by adding

(d) The governor shall annually, legislature, report to the legislature and Audit Committee the long-range fis

(1) alternate levels of cap funds of the state; and

(2) alternative investment plus.

* Sec. 5. AS 37 is amended by adding a CHAPTER 13. ALASKA PER

Sec. 37.13.010. ALASKA PERMANENT of the state constitution, there is an Alaska permanent fund. The Alaska pe:

(1) 25 percent of all mine

financial planning;
agencies accountable to statutory intent in
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pending needed legislation.

The Legislative Budget and Audit Commit-

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reports from all agencies of the state
investment functions;

the report of investment programs, plans,
all agencies of the state which perform
to the legislature within 30 days after
session;

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recommendations for needed legislation;

with the finance committee of each house
structure the investment policy for the
income from the permanent fund;

annual post audit and annual operational
of the Alaska Permanent Fund Corporation in-

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Chapter 18

investments and investment programs.

Sec. 24.20.209. RECORDS. The Legislative Budget and Audit Commit-
tee shall keep a complete file of all reports presented to it and all
reports presented by it to the legislature or to a legislative commit-
tee.

* Sec. 3. AS 24.20.201(a) is amended by adding new paragraphs to read:

(9) hold public hearings on the confirmation of the members
of the Board of Trustees of the Alaska Permanent Fund Corporation, and
the members of the Board of Trustees of the Alaska Renewable Resources
Corporation;

(10) make recommendations to the legislature and to agencies
of the state which perform lending or investment functions concerning
the structure and operating practices of the agencies;

(11) enter into and enforce all contracts necessary or desira-
ble for the functions of the committee.

* Sec. 4. AS 37.07.020 is amended by adding a new subsection to read:

(d) The governor shall annually, before the convening of the
legislature, report to the legislature through the Legislative Budget
and Audit Committee the long-range fiscal and economic consequences of

(1) alternate levels of capitalization of the investment
funds of the state; and

(2) alternative investment policy for the general fund sur-
plus.

* Sec. 5. AS 37 is amended by adding a new chapter to read:

CHAPTER 13. ALASKA PERMANENT FUND.

Sec. 37.13.010. ALASKA PERMANENT FUND. (a) Under art IX, sec. 15
of the state constitution, there is established as a separate fund the
Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties,

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royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980;

(3) any other money appropriated to or otherwise allocated by law to the Alaska permanent fund.

(b) Payments due the Alaska permanent fund under (a) of this section shall be made to the fund once each month.

(c) The Alaska permanent fund shall be managed by the Alaska Permanent Fund Corporation established in this chapter.

Sec. 37.13.020. FINDINGS. The people of the state, by constitutional amendment, have required the placement of at least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and federal mineral revenue sharing payments and bonuses received by the state into a permanent fund. The legislature finds with respect to the Alaska Permanent Fund Corporation that

(1) the corporation should provide a means of conserving a portion of the state's revenues from mineral resources to benefit all generations of Alaskans;

(2) the corporation's goal should be to maintain safety of principal while maximizing total return;

(3) the corporation should be used as a savings device

managed to allow the maximum use of disposition for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to provide a mechanism for the management of the permanent fund assets allocated to the Alaska Permanent Fund in a manner consistent with the findings of the legislature.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. The legislature established the Alaska Permanent Fund as a public corporation and government instrumentality. The revenue managed by a board of trustees. The board shall manage and invest the assets of the corporation in a manner consistent with the provisions of this chapter.

Sec. 37.13.050. COMPOSITION AND POWERS. (a) The Board of Trustees of the Alaska Permanent Fund shall consist of six members appointed by the governor from the public or federal office, position or employment, except as a member of the State or of this state. Members other than the public members shall be separately confirmed by a majority vote of the legislature in joint session.

(b) The three public members of the board shall have the necessary competence and wide experience in financial management-related fields.

(c) The board shall annually elect its members.

Sec. 37.13.060. TERM OF OFFICE

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aring payments received by the state from
fore December 1, 1979, and 25 percent of
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established in this chapter.

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should be to maintain safety of
al returns;

should be used as a savings device

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managed to allow the maximum use of disposable income from the corpora-
tion for purposes designated by law.

Sec. 37.13.030. PURPOSE. It is the purpose of this chapter to
provide a mechanism for the management and investment of those permanent
fund assets allocated to the Alaska Permanent Fund Corporation in a
manner consistent with the findings in AS 37.13.020.

Sec. 37.13.040. ALASKA PERMANENT FUND CORPORATION. There is
established the Alaska Permanent Fund Corporation. The corporation is a
public corporation and government instrumentality in the Department of
Revenue managed by a board of trustees. The purpose of the board is to
manage and invest the assets of the corporation in accordance with this
chapter.

Sec. 37.13.050. COMPOSITION AND QUALIFICATIONS OF BOARD OF TRUS-
TEES. (a) The Board of Trustees of the Alaska Permanent Fund Corpora-
tion consists of six members appointed by the governor. Three of the
members shall be heads of principal departments of state government, one
of whom shall be the commissioner of revenue. Three members shall be
appointed by the governor from the public and may not hold any other
state or federal office, position or employment, either elective or
appointive, except as a member of the armed forces of either the United
States or of this state. Members other than the commissioner of revenue
shall be separately confirmed by a majority of the members of the legis-
lature in joint session.

(b) The three public members of the board shall have recognized
competence and wide experience in finance, investments, or other busi-
ness management-related fields.

(c) The board shall annually elect a chairman from among its
members.

Sec. 37.13.060. TERM OF OFFICE. The members of the board shall be

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1 appointed for terms of three years, and they may be reappointed subject
2 to confirmation by a majority of the members of the legislature in joint
3 session. Terms shall be staggered. Initial terms for members other
4 than the commissioner of revenue shall be two members serving for one
5 year, two members serving for two years, and one member serving for
6 three years.

7 Sec. 37.13.070. REMOVAL AND VACANCIES. (a) The governor may
8 remove a member of the board from office. However, the removal of a
9 member of the board is subject to disapproval by a vote of a majority of
10 the members of the legislature at the first joint session held 10 or
11 more days after the legislature receives notice of the removal from the
12 governor. A removal by the governor shall be in writing and shall state
13 the reason for the removal. A member who is removed by the governor may
14 not participate in board business and may not be counted for purposes of
15 establishing a quorum between the time he receives written notice of his
16 removal from the governor and the time that the legislature's power to
17 disapprove the removal under this subsection expires. If the legisla-
18 ture disapproves the removal of a board member, the board member shall
19 be reinstated.

20 (b) A vacancy on the board shall be promptly filled by appointment
21 by the governor and confirmation by a majority of the members of the
22 legislature in joint session. An appointee to a vacancy shall hold
23 office for the balance of the term for which his predecessor on the
24 board was appointed. If a vacancy arises on the board while the legis-
25 lature is not in session, the governor may appoint an interim board
26 member who shall exercise the powers of a board member until the legis-
27 lature fails to confirm the appointment of the interim board member.

28 (c) A vacancy on the board does not impair the authority of a
29 quorum of the board to exercise all the powers and perform all the

1 duties of the board.

2 Sec. 37.13.080. QUORUM. Four is
3 quorum for the transaction of business
4 and duties of the board.

5 Sec. 37.13.090. COMPENSATION OF
6 the board receive an honorarium of \$4
7 attend the meeting. All members of the
8 and travel allowances as provided by
9 commissions.

10 Sec. 37.13.100. CORPORATION STAFF
11 determine the salary of an executive
12 may, with the approval of the board,
13 as necessary. No employee of the com-
14 director, may be a member of the board.
15 other employees of the board are in-

16 Sec. 37.13.110. CONFLICTS OF INTEREST
17 and the executive director are subject to

18 (b) If a member of the board or
19 acquires, owns or controls an interest
20 or project in which corporation assets
21 immediately disclose the interest to the
22 matter of public record and shall be
23 board meeting next following the date

24 Sec. 37.13.120. INVESTMENT RESOURCES
25 The prudent-man rule shall be applied
26 investment of Alaska permanent fund
27 applied to investments of the corporation.
28 Hence the board shall exercise the dis-
29 cretion then prevailing which an invest-

, and they may be reappointed subject
to the terms of the legislature in joint
financial terms for members other
shall be two members serving for one
years, and one member serving for

VACANCIES. (a) The governor may
office. However, the removal of a
disapproval by a vote of a majority of
the first joint session held 10 or
receives notice of the removal from the
governor shall be in writing and shall state
the member who is removed by the governor may
and may not be counted for purposes of
time he receives written notice of his
time that the legislature's power to
subsection expires. If the legisla-
board member, the board member shall

shall be promptly filled by appointment
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appointee to a vacancy shall hold
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board. The governor may appoint an interim board
member until the legis-
lature's power to appoint the interim board member,
does not impair the authority of a
board member to exercise all the

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duties of the board.

Sec. 37.13.080. QUORUM. Four members of the board constitute a
quorum for the transaction of business and the exercise of the powers
and duties of the board.

Sec. 37.13.090. COMPENSATION OF BOARD MEMBERS. Public members of
the board receive an honorarium of \$400 for each meeting day if they
attend the meeting. All members of the board are entitled to per diem
and travel allowances as provided by law for members of state boards and
commissions.

Sec. 37.13.100. CORPORATION STAFF. The board may employ and
determine the salary of an executive director. The executive director
may, with the approval of the board, select and employ additional staff
as necessary. No employee of the corporation, including the executive
director, may be a member of the board. The executive director and the
other employees of the board are in the exempt service under AS 39.25.

Sec. 37.13.110. CONFLICTS OF INTEREST. (a) Members of the board
and the executive director are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the corporation
acquires, owns or controls an interest, direct or indirect, in an entity
or project in which corporation assets are invested, he shall im-
mediately disclose the interest to the board. The disclosure is a
matter of public record and shall be included in the minutes of the
board meeting next following the disclosure.

Sec. 37.13.120. INVESTMENT RESPONSIBILITIES OF THE BOARD. (a)
The prudent-man rule shall be applied by the board in the management and
investment of Alaska permanent fund assets. The prudent-man rule as
applied to investments of the corporation means that in making invest-
ments the board shall exercise the judgment and care under the circum-
stances then prevailing which an institutional investor of ordinary

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1 prudence, discretion, and intelligence exercises in the management of
2 large investments entrusted to it not in regard to speculation but in
3 regard to the permanent disposition of funds, considering probable
4 safety of capital as well as probable income.

5 (b) The corporation assets shall only be used for income-producing
6 investments.

7 (c) The board shall maintain a reasonable diversification among
8 investments unless under the circumstances it is clearly prudent not to
9 do so.

10 (d) The board shall submit long-range and quarterly investment
11 reports to the Legislative Budget and Audit Committee.

12 (e) The corporation may not borrow funds or guarantee from principal
13 of the Alaska permanent fund the obligations of others.

14 (f) The board may enter into and enforce all contracts necessary,
15 convenient or desirable for purposes of the corporation.

16 (g) Subject to the limitations in (h) and (i) of this section, the
17 board may invest corporation assets in

18 (1) obligations of, or obligations insured by or guaranteed
19 by, the United States or agencies or instrumentalities of the United
20 States;

21 (2) obligations secured by reserves paid in by the United
22 States or agencies or instrumentalities of the United States or obligations
23 of corporations in which the United States is a shareholder or
24 member;

25 (3) certificates of deposit issued by United States domestic
26 banks which are members of the Federal Deposit Insurance Corporation for
27 which a generally recognized secondary market exists or which are fully
28 secured at all times as to payment of principal and interest by investments
29 described in (1) - (2), (8) or (12) - (16) of this subsection; the

security pledged under this paragraph
face value of the deposit and the board
collateral;

3 (4) shares of federally chartered
4 banks in Alaska which are fully secured
5 principal and interest by investments
6 described in this subsection;

7 (5) savings certificates and
8 loan associations in Alaska which
9 are fully secured as to payments of principal and interest
10 by investments described in (1) - (2) of
11 this subsection;

12 (6) deposits with mutual savings
13 banks which are fully secured at all times as to payments of principal and interest
14 by investments described in (1) - (2) of
15 this subsection;

16 (7) fixed-term certificates of
17 deposit issued by insured credit unions which are fully
18 secured as to principal and interest by investments
19 described in this subsection;

20 (8) corporate debt securities
21 issued by a nationally recognized rating service

22 (9) short-term corporate paper
23 with ratings assigned by a nationally recognized
24 rating service;

25 (10) bankers' acceptances of
26 United States banks each of which have a combined
27 capital of at least \$200,000,000;

28 (11) repurchase agreements,
29 agreements being any of the items in
this subsection;

(12) the guaranteed portion

agency exercises in the management of
not in regard to speculation but in
on of funds, considering probable
able income.

shall only be used for income-producing

in a reasonable diversification among
investments; it is clearly prudent not to

long-range and quarterly investment
and Audit Committee.

to borrow funds or guarantee from principal
the obligations of others.

to execute and enforce all contracts necessary,
in the interest of the corporation,

as provided in (h) and (i) of this section, the
duties in

the obligations insured by or guaranteed
or instrumentalities of the United

to be paid by reserves paid in by the United
States or obligations of the United States or
if the United States is a shareholder or

deposit issued by United States domestic
Federal Deposit Insurance Corporation for
secondary market exists or which are fully
secured by principal and interest by invest-
ment or (12) - (16) of this subsection; the

PCCSSB 161

Chapter 18

security pledged under this paragraph shall be at least equal to the
face value of the deposit and the board may require substitution of
collateral;

(4) shares of Federally chartered savings and loans associa-
tions in Alaska which are fully secured at all times as to payments of
principal and interest by investments described in (1) - (2) of this
subsection;

(5) savings certificates issued by state chartered savings
and loan associations in Alaska which are fully secured at all times as
to payments of principal and interest by investments described in (1) -
(2) of this subsection;

(6) deposits with mutual savings banks in Alaska which are
fully secured at all times as to payments of principal and interest by
investments described in (1) - (2) of this subsection;

(7) fixed-term certificates of indebtedness of federally
insured credit unions which are fully secured at all times as to payments
of principal and interest by investments described in (1) - (2) of this
subsection;

(8) corporate debt securities which are rated AA or better by
a nationally recognized rating service;

(9) short-term corporate promissory notes of the highest
ratings assigned by a nationally recognized rating service;

(10) bankers' acceptances drawn on and accepted by United
States banks each of which have a combined capital and surplus aggregat-
ing at least \$200,000,000;

(11) repurchase agreements, the securities underlying the
agreements being any of the items in (1) - (3) and (8) - (10) of this
subsection;

(12) the guaranteed portion of Federal Small Business Adminis-

Chapter 18

1 tration loans;

2 (13) the portion of first lien real estate mortgages guaran-
3 teed by the Federal Veterans Association;

4 (14) the portions of business and industrial loans made under
5 the Rural Development Act of 1972 which are guaranteed by the Farmer's
6 Home Administration;

7 (15) the guaranteed portion of Farmer's Home Administration
8 loans;

9 (16) notes secured by mortgages of residential real estate if
10 the mortgages are insured by a private mortgage insurance corporation
11 which is authorized to do business in Alaska and has combined capital,
12 surplus and reserves aggregating at least \$20,000,000; the minimum
13 coverage shall be 10 percent for loans having a loan-to-value ratio of
14 less than 90 percent, and the minimum coverage shall be 20 percent for
15 loans having a loan-to-value ratio of 90 percent or more.

16 (h) The board may enter into future contracts for the sale of
17 investments purchased under (g) of this section only for the purpose of
18 hedging an existing equivalent ownership position in these securities.

19 (i) Investments under (g)(8) of this section may not exceed 25
20 percent of the total investments of the Alaska permanent fund. Invest-
21 ments under (g)(16) of this section may not exceed in the aggregate 15
22 percent of the total investments of the Alaska permanent fund.

23 (j) The assets of the Alaska permanent fund may not be used for
24 the purchase of bonds of a corporation, upon which any regular interest
25 payment has been defaulted within five years before purchase, except
26 bonds never in default but which have been outstanding for less than
27 five years.

28 (k) The board shall establish and from time to time as necessary
29 modify guidelines for the investment of the assets of the corporation.

estate mortgages guaran-
Industrial loans made under
guaranteed by the Farmer's
ner's Home Administration
idential real estate if
ge insurance corporation
and has combined capital,
1,000,000; the minimum
a loan-to-value ratio of
e shall be 20 percent for
ent or more.
tracts for the sale of
on only for the purpose of
tion in these securities.
ction may not exceed 25
a permanent fund. Invest-
ceed in the aggregate 15
a permanent fund.
fund may not be used for
which any regular interest
before purchase, except
standing for less than
time to time as necessary
seats - the corporation.
B 16.

Chapter 18

Before adoption of any guidelines the guidelines shall be reported to the Legislative Budget and Audit Committee for review and comment.

(1) The board shall invest the assets of the corporation in in-state investments to the extent in-state investments are available if the in-state investments

(1) have a risk level and expected yield comparable to alternate investment opportunities; and

(2) are included in the list of permissible investments in (g) of this section.

Sec. 37.13.130. GAINS AND LOSSES. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the income and the resulting amount of income added to the principal of the Alaska permanent fund. Losses taken on the sales of securities shall be accumulated over a period equal to the average remaining life of the securities sold, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, the excess shall be added to the principal of the Alaska permanent fund.

Sec. 37.13.140. INCOME. The interest received in a year is the income of the corporation for that year. The income available for disbursement shall be determined on an averaging basis. For the first five years, income will be the simple averaging of the annual current return at cost. Subsequently, there will be a moving average current return, in which the latest fiscal year will replace the oldest year. The income available for disbursement will be the lesser of the latest fiscal year's income, or the average annual current income for the past five fiscal years of the Alaska permanent fund at cost, and after

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adjustment for capital losses charged to that fiscal year.

Sec. 37.13.150. BOARD BUDGET. The operating budget of the board is from the general fund and is subject to the Executive Budget Act (AS 37.07).

Sec. 37.13.160. AUDITS. The Legislative Budget and Audit Committee shall provide for an annual post audit and annual operational and performance evaluations of the corporation's investments and investment programs.

Sec. 37.13.170. REPORTS AND PUBLICATIONS. By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor, legislature, and the public. The report shall be written in easily understandable language. The report must include financial statements audited by independent outside auditors, a statement of the amount of money received by the Alaska permanent fund from each investment during the period covered, a statement of investments of the corporation including an appraisal at market value, a description of corporation investment activity during the period covered by the report, a comparison of the corporation performance with the intended goals contained in AS 37.13.020, an examination of the impact of the investment criteria of this chapter on the corporation portfolio with recommendations of any needed changes, and any other information the board believes would be of interest to the governor, the legislature, and the public. The annual income statement and balance sheet of the corporation shall be published in at least one newspaper in each judicial district. The income statement and balance sheet for the two fiscal years preceding the publication of the election pamphlet under AS 15.57 shall be included in that pamphlet.

Sec. 37.13.180. TAX EXEMPTION. The corporation is exempt from all taxes and assessments in the state. All security instruments issued by

the corporation, their transfer, taxes and assessments in the state.

Sec. 37.13.190. POLITICAL . corporation may not be used to finance

Sec. 37.13.200. PUBLIC ACCOUNTING. possession of the corporation is information which discloses the participation of a private enterprise or investor in record. Confidential information of an official law enforcement investigation required in a court proceeding. publication of statistics presented in a report. publication of particular reports

Sec. 37.13.210. DEFINITION

(1) "board" means the Alaska Permanent Fund Corporation;

(2) "corporation" means the Alaska Permanent Fund Corporation.

* Sec. 6. AS 38.05.180(g) is amended

(g) The share of the net proceeds of the state under (f) of this section for the purposes of the Alaska permanent fund and the Alaska renewable resource fund

* Sec. 7. AS 39.25.110 is amended

(22) members of the board

and staff of the Alaska Permanent Fund Corporation

* Sec. 8. AS 39.50.200(9) is amended to read:

(SS) Board of Trustees

to that fiscal year.
The operating budget of the board
act to the Executive Budget Act

Legislative Budget and Audit Commit-
audit and annual operational and
ation's investments and investment

AS. By September 30 of each
the corporation for distribu-
the public. The report shall be
page. The report must include
independent outside auditors, a state-
y the Alaska permanent fund from
red, a statement of investments of
at market value, a description of
the period covered by the report,
formance with the intended goals
ion of the impact of the invest-
corporation portfolio with recom-
any other information the board
overnor, the legislature, and the
nd balance sheet of the corpora-
newspaper in each judicial
ance sheet for the two fiscal
election pamphlet under AS 15.57

The corporation is exempt from all
l security instruments issued by

Chapter 18

the corporation, their transfer, and their income are exempt from all
taxes and assessments in the state.

Sec. 37.13.190. POLITICAL ACTIVITIES. The resources of the cor-
poration may not be used to finance or influence political activities.

Sec. 37.13.200. PUBLIC ACCESS TO INFORMATION. Information in the
possession of the corporation is a public record, except that infor-
mation which discloses the particulars of the business or affairs of a
private enterprise or investor is confidential and is not a public
record. Confidential information may be disclosed only for the purposes
of an official law enforcement investigation or when its production is
required in a court proceeding. These restrictions do not prohibit the
publication of statistics presented in a manner that prevents the iden-
tification of particular reports, items, persons, or enterprises.

Sec. 37.13.210. DEFINITIONS. In this chapter,

- (1) "board" means the Board of Trustees of the Alaska Per-
manent Fund Corporation;
- (2) "corporation" means the Alaska Permanent Fund Corpora-
tion.

* Sec. 6. AS 38.05.180(g) is amended to read:

(g) The share of the net profit derived from a lease reserved to
the state under (f) of this section is royalty sale proceeds for the
purposes of the Alaska permanent fund under AS 37.13.010 [AS 37.10.065]
and the Alaska renewable resources development fund under AS 37.11.020.

* Sec. 7. AS 39.25.110 is amended by adding a new paragraph to read:

(22) members of the board of trustees, the executive director,
and staff of the Alaska Permanent Fund Corporation.

* Sec. 8. AS 39.50.200(9) is amended by adding a new subparagraph to
read:

(SS) Board of Trustees and executive director of the



LA'

Chapter 18

Alaska Permanent Fund Corporation.

1
 2 * Sec. 9. TRANSITION. The commissioner of revenue shall transfer the
 3 Alaska permanent fund to the Alaska Permanent Fund Corporation established by
 4 this Act after request for transfer is made by the board of trustees of the
 5 corporation. Notwithstanding AS 37.10.065(a), the commissioner of revenue
 6 may invest the money in the Alaska permanent fund in the investments de-
 7 scribed in AS 37.13.120(g) subject to the limitations of AS 37.13.120(h) and
 8 (i).

9 * Sec. 10. AS 37.10.065 is repealed.

10 * Sec. 11. Section 10 of this Act takes effect upon transfer of the
 11 Alaska permanent fund to the Alaska Permanent Fund Corporation as provided in
 12 sec. 9 of this Act. The remainder of this Act takes effect immediately in
 13 accordance with AS 01.10.070(c).

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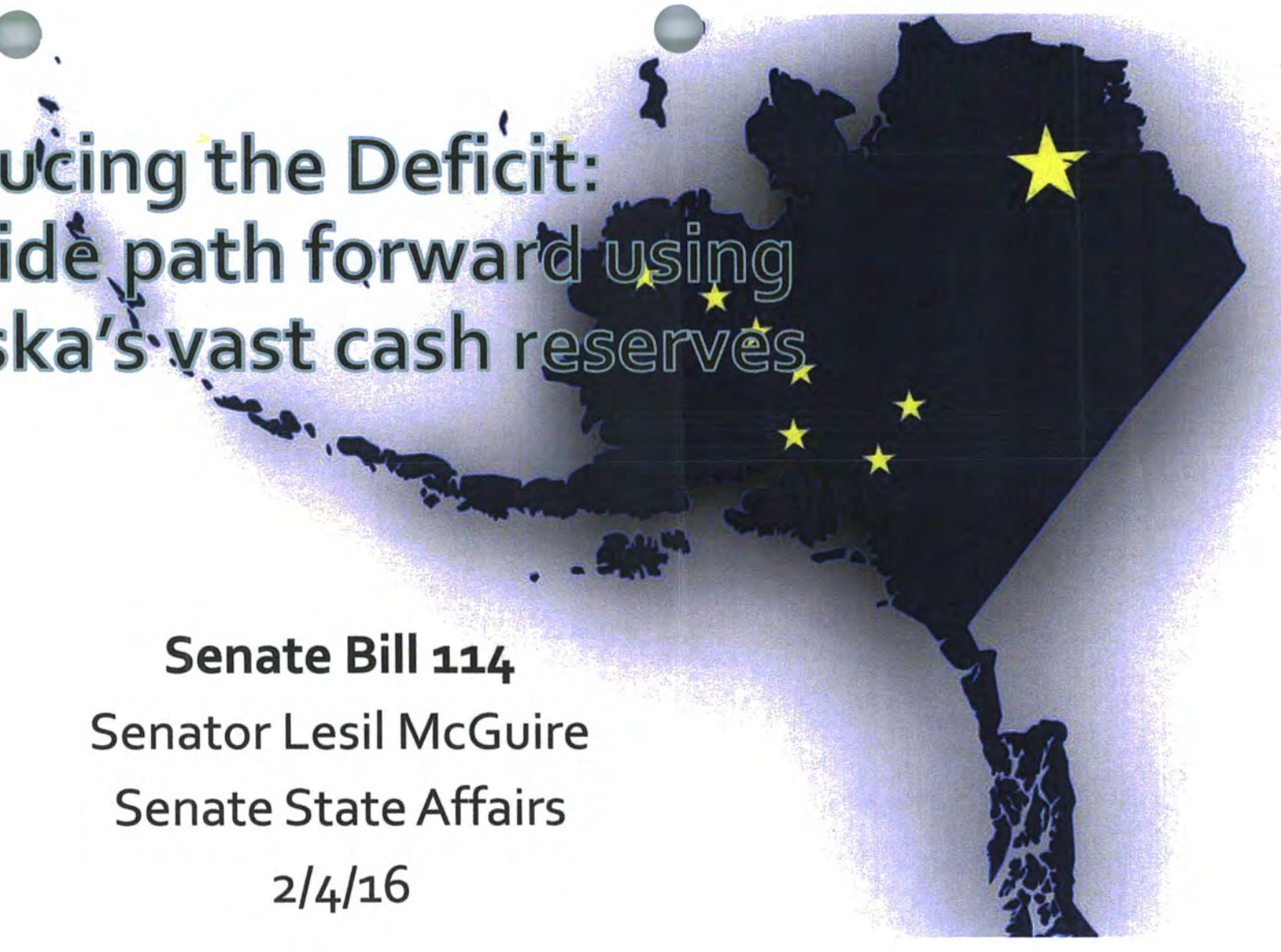
Source
2d HCSSB 71(Rules) a
(eff. date not adopt)

Relating to hunting,

BE IT ENACTED BY THE LEG

THE ACT

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**Reducing the Deficit:
A glide path forward using
Alaska's vast cash reserves**

Senate Bill 114
Senator Lesil McGuire
Senate State Affairs
2/4/16

A \$3.5-4 Billion Deficit

- The legislature has enacted heavy spending cuts over the last 2 years
- The state has several savings accounts, but
 - Revenue models show that if oil prices do not rebound,
 - Those savings will be gone in about 2 years
- We cannot wait and hope for high oil prices
- The price of inaction now could be disastrous for the state's future



A \$3.5-4 Billion Deficit

We have seen this before

For decades

Oil Price x Volume = State Budget

This has been Volatile and Unstable

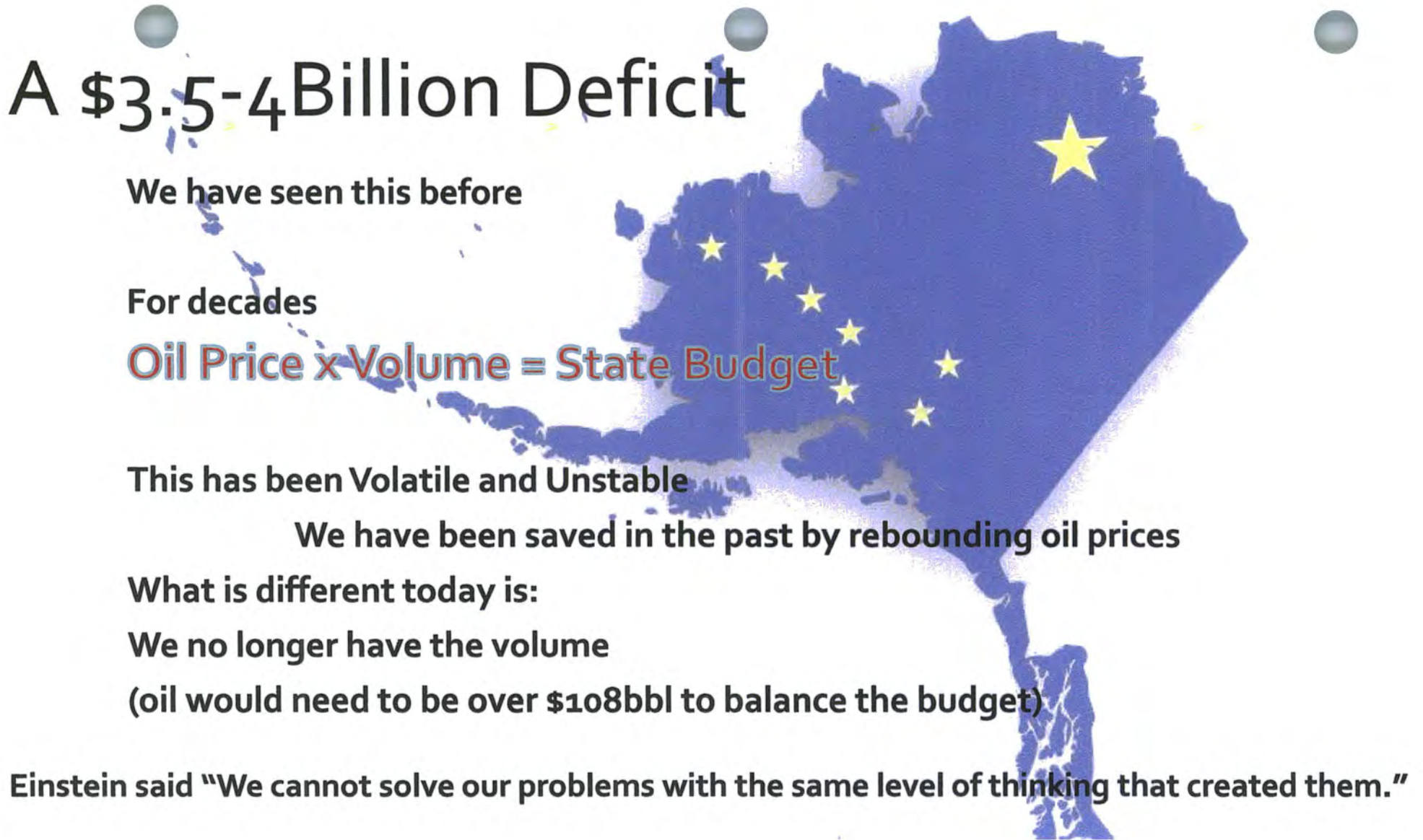
We have been saved in the past by rebounding oil prices

What is different today is:

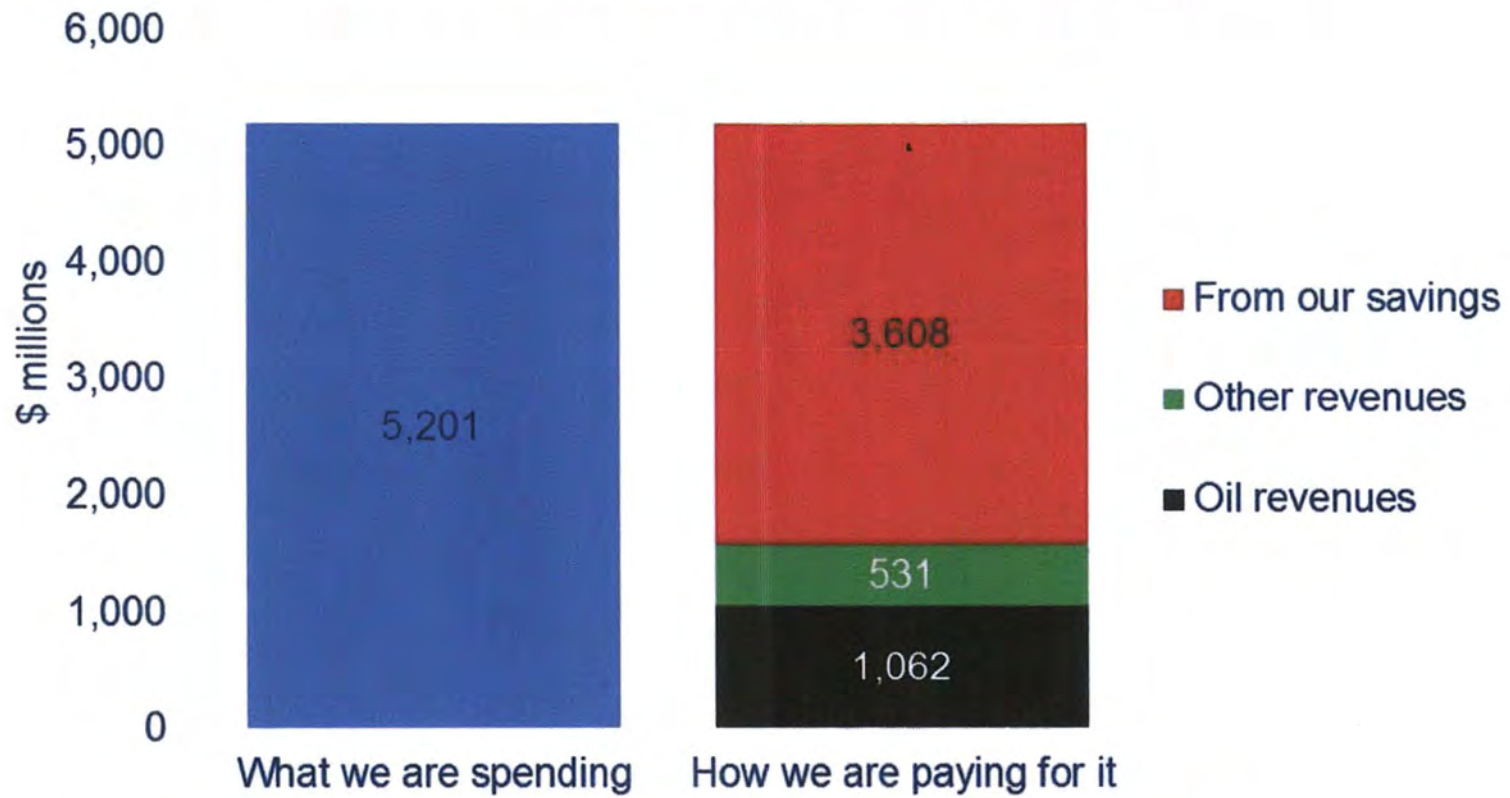
We no longer have the volume

(oil would need to be over \$108bbl to balance the budget)

Einstein said "We cannot solve our problems with the same level of thinking that created them."

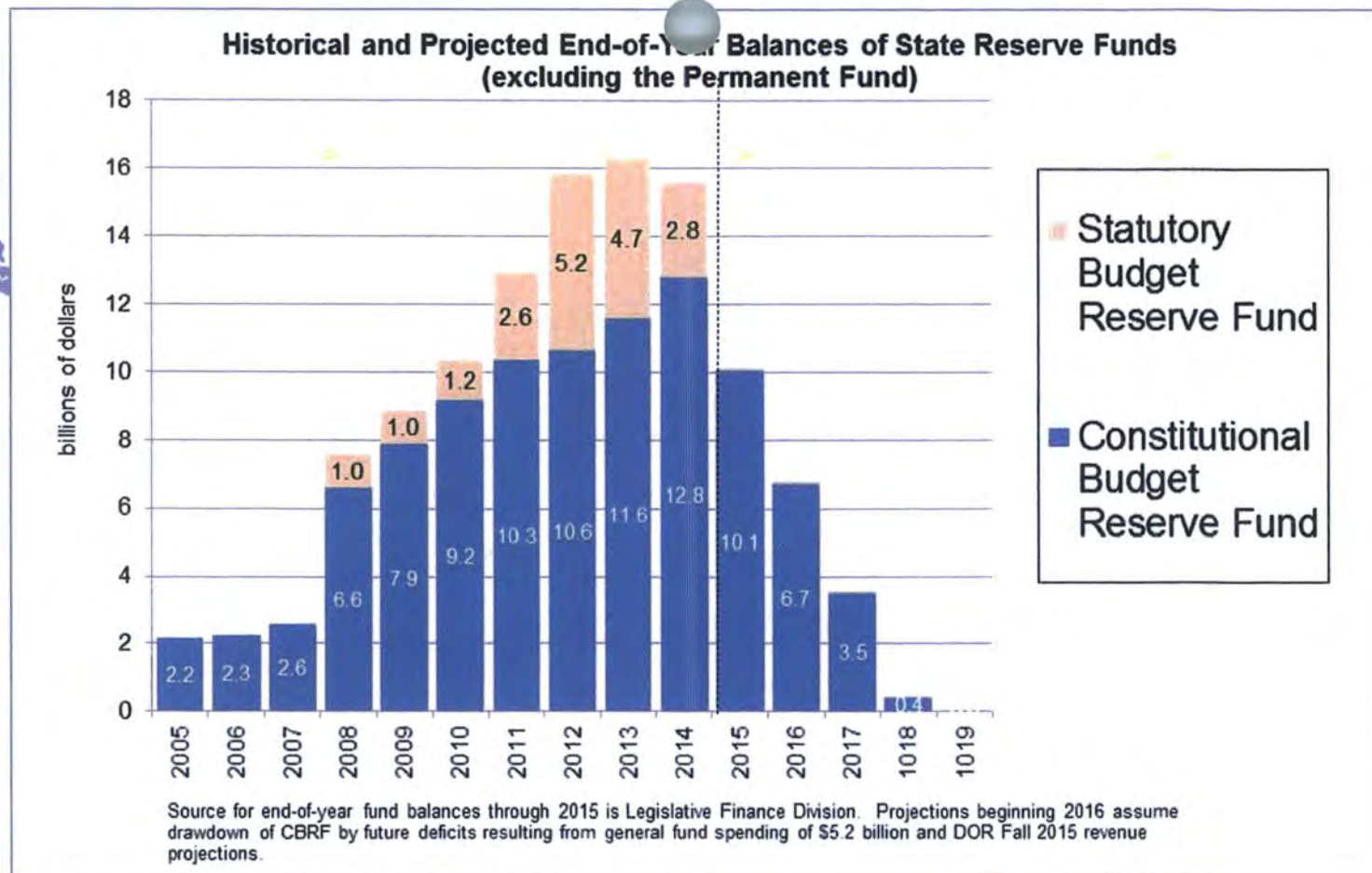


Alaska's Fiscal Situation This Year (FY16)



Gunnar Knapp- ISER





Gunnar Knapp- ISER

- 2008-09: Record high oil prices under ACES
- 2013: Low price and low volume- began draw down of SBR
- 2018: We cannot pay our bills with savings



It would be very difficult to close our funding gap by only cutting spending.



How We are Spending \$5,201 million



Most cuts would have to come from state agencies—including education & health

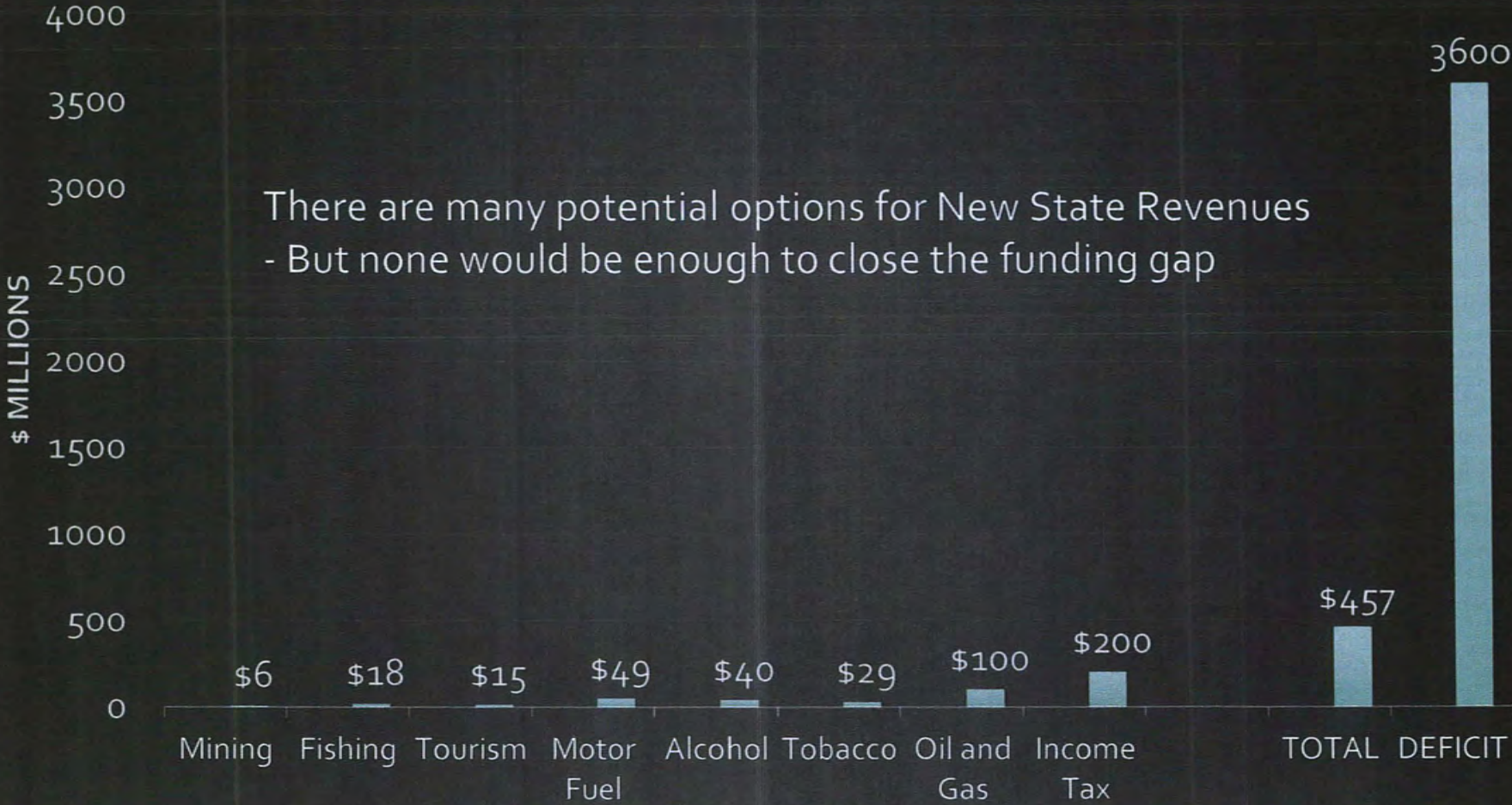
It would be very difficult to cut debt & retirement spending

Cutting oil tax credits could affect future production and revenues

Very little capital spending is left to cut

Gunnar Knapp- ISER

Potential New Revenue From Sustainable Alaska Plan

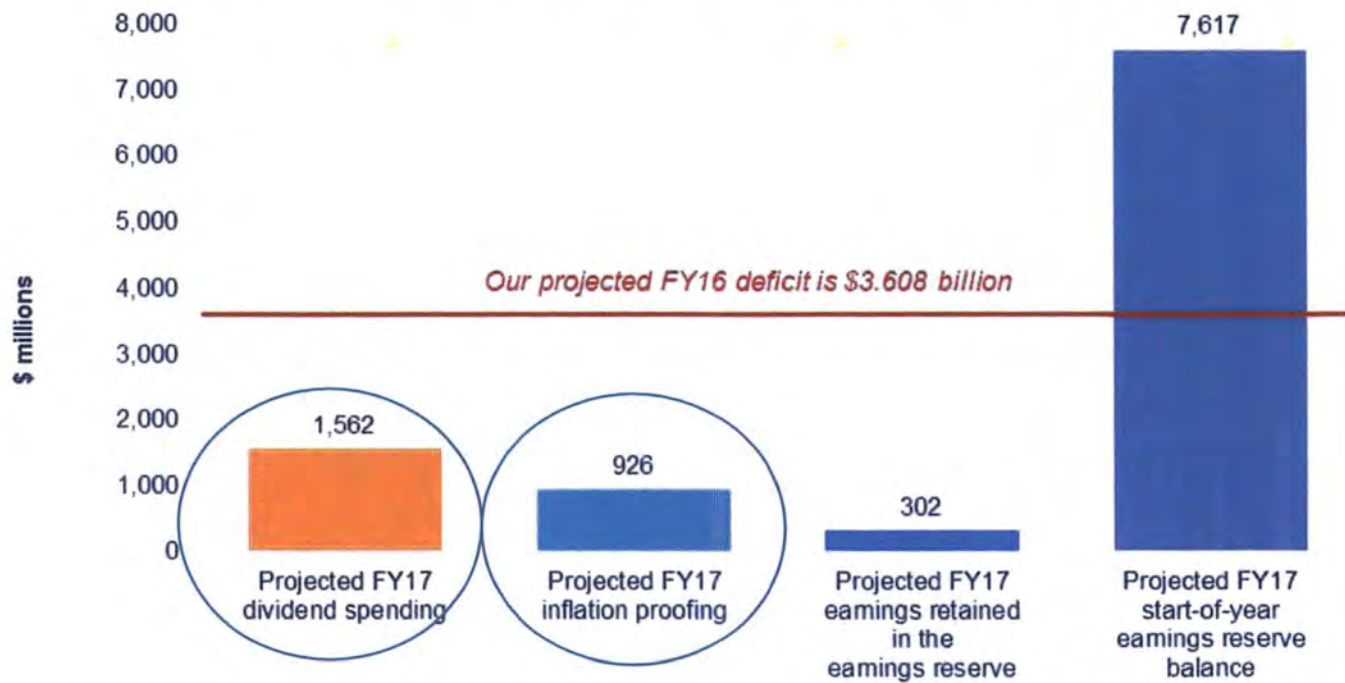




**We cannot close the gap with cuts or new broad-based revenue
ALONE**

**A sound fiscal solution will necessarily involve using the Permanent
Fund**

Potential Sources of Permanent Fund Earnings

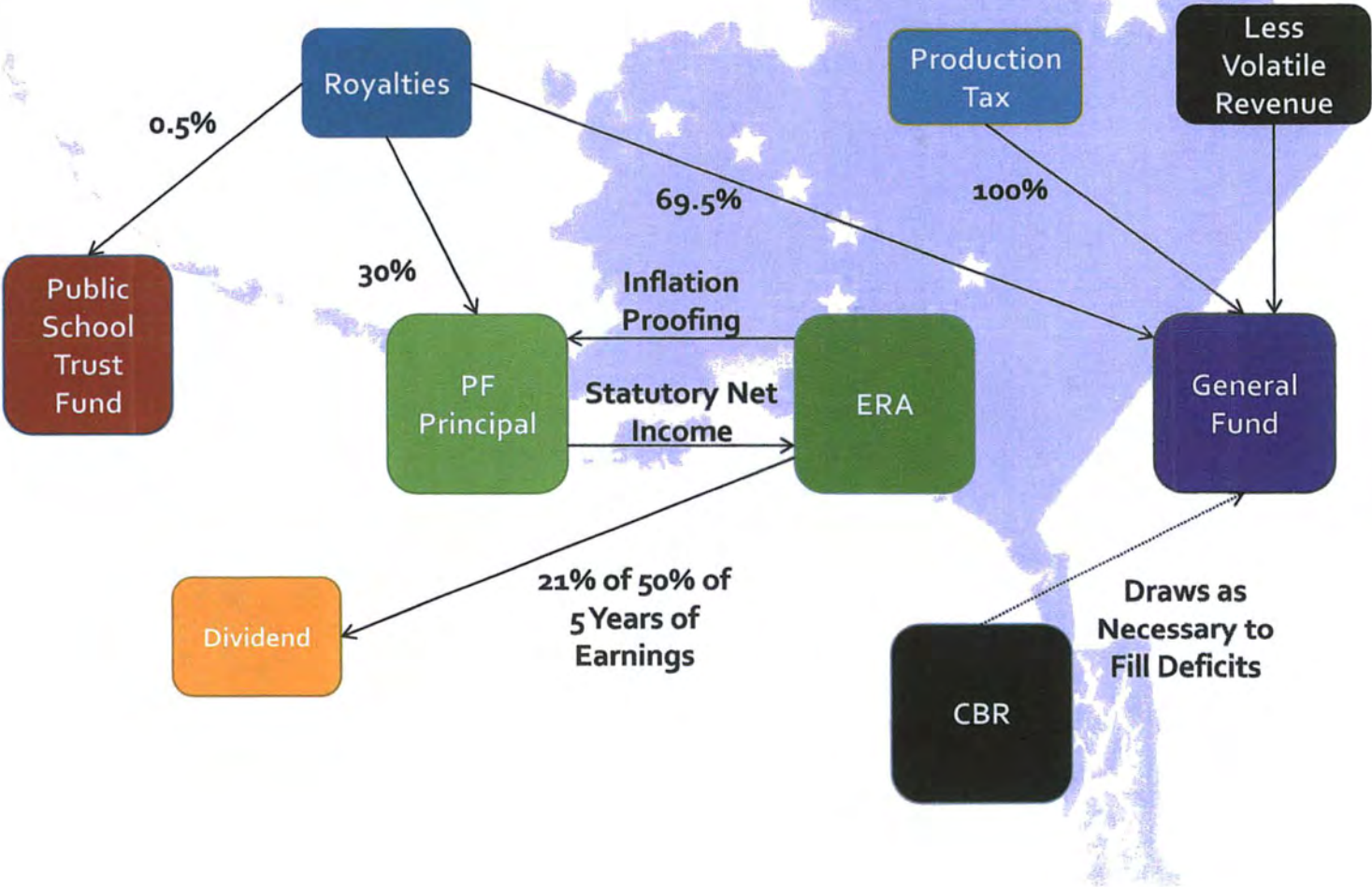


Source: Alaska Permanent Fund Corporation projections as of 9/30/15

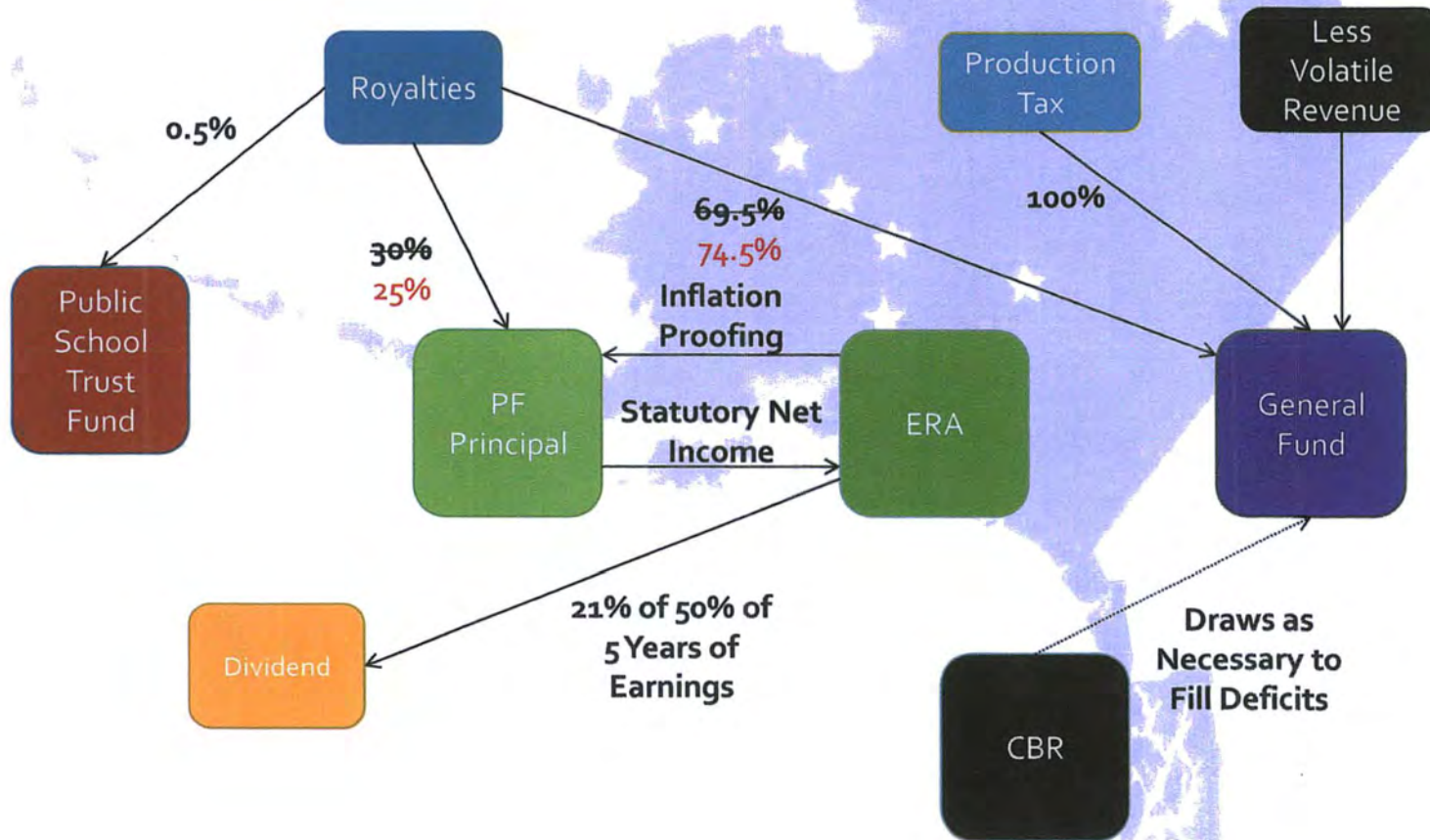
**If you consider the PF Dividend and Inflation proofing as spending-
It is our SINGLE LARGEST budget item**



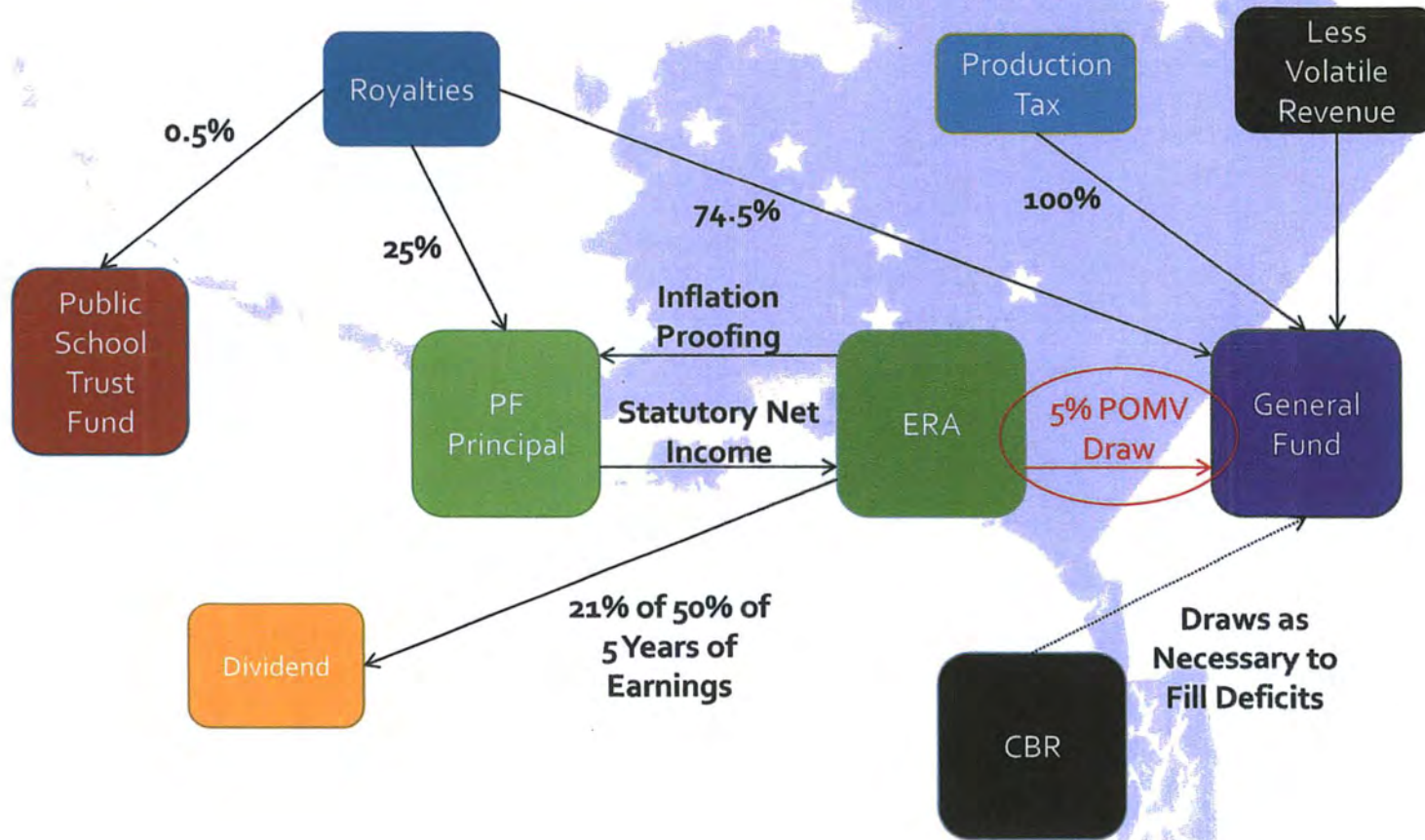
Current Cash Flow



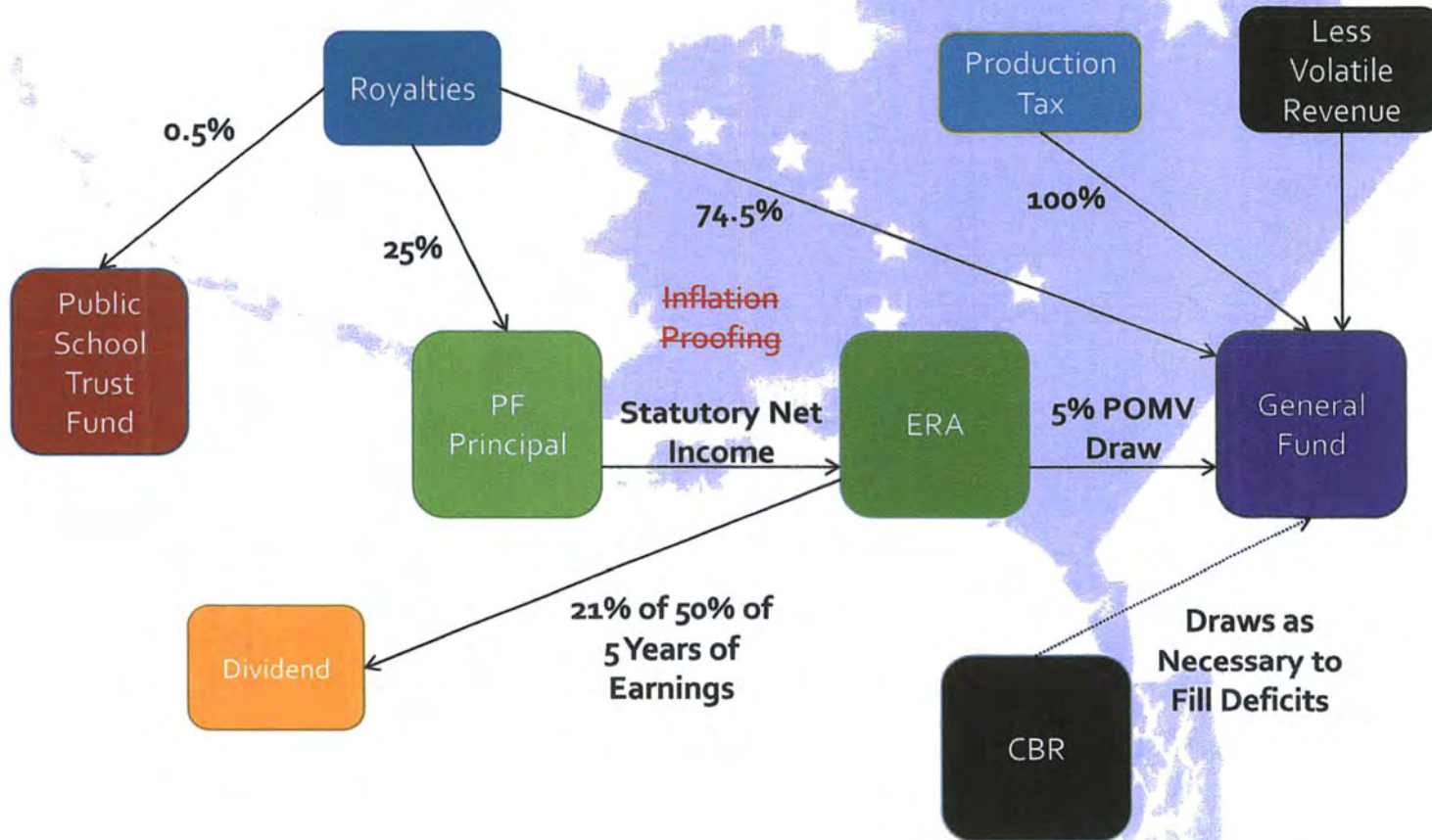
1. Change Royalty Percentage



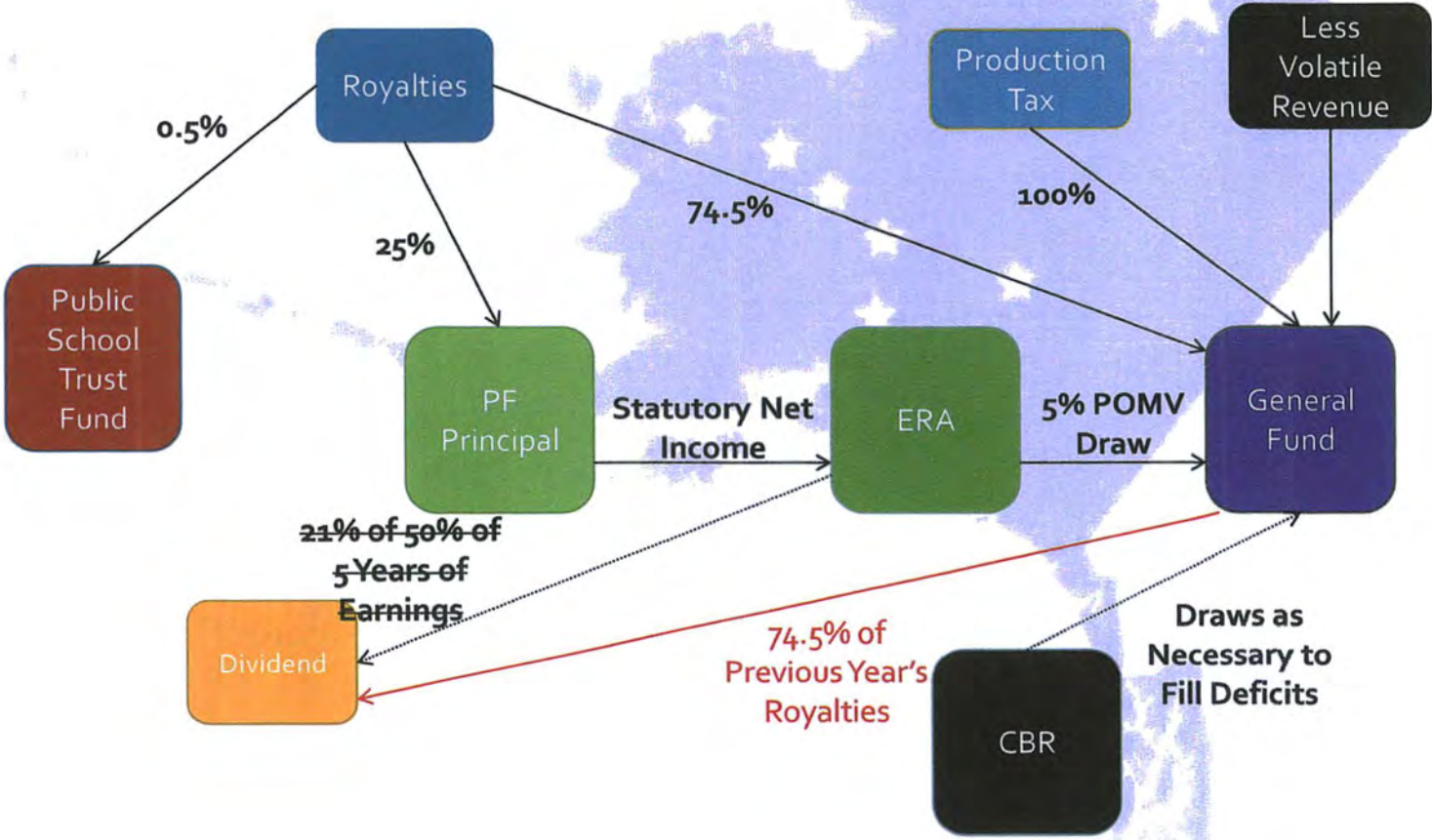
2. Add POMV Payout



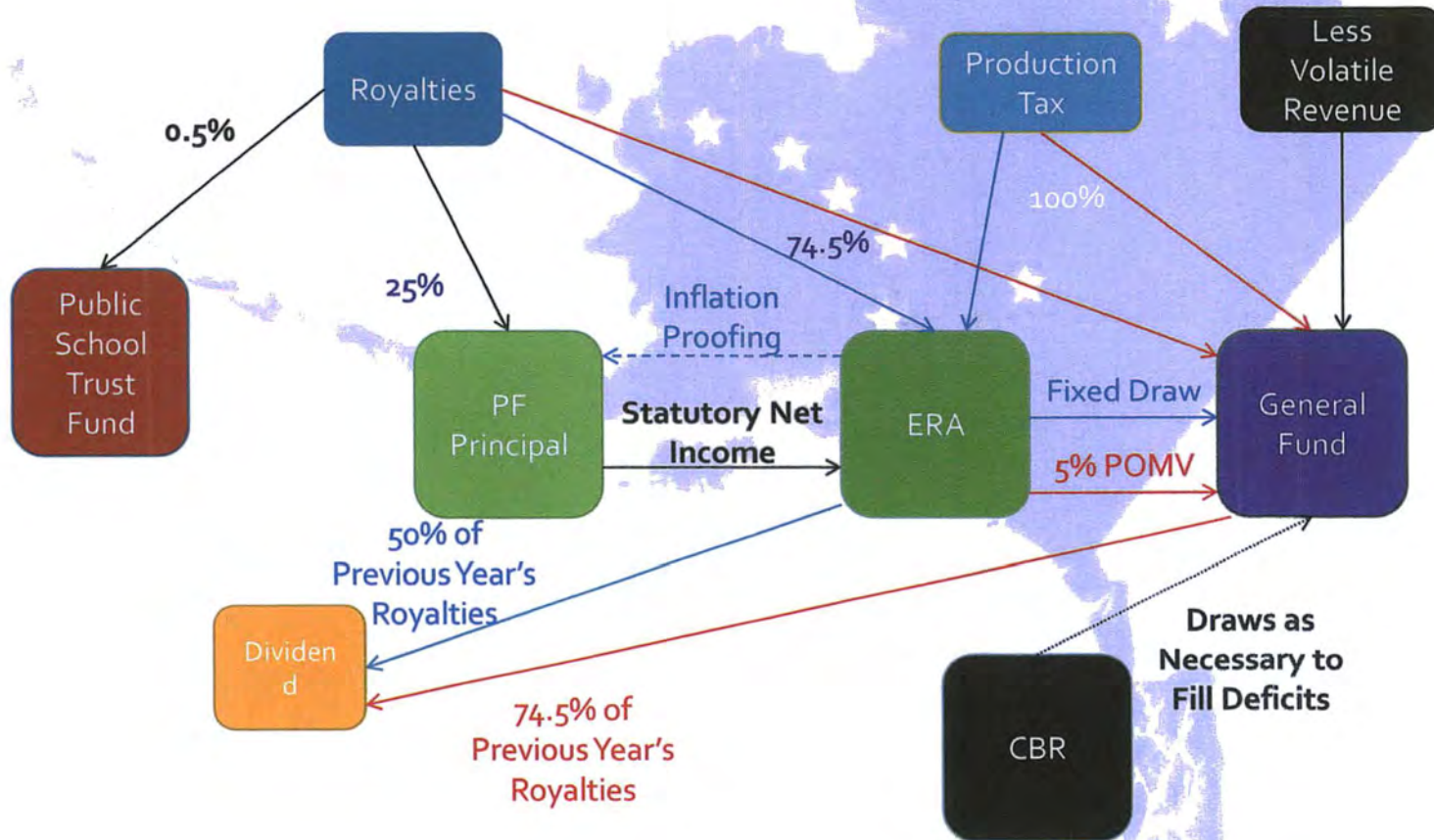
3. Remove Inflation Proofing



4. Change Dividend Source and Calculation



PFPA vs. SB 114



Walker's Proposal vs SB 114

Key Elements

- **Royalties go to Dividend under both plans**
 - Gov's = 50% of Royalties (~\$1,000 dividend and falling)
 - SB 114= 74.5% of Royalties (Higher Dividend)
- **Gov's plan moves CBR and Oil tax revenue into Earnings Reserve Account**
- **Gov's plan is NOT a POMV**
 - **Targets a set number (\$3.3B) for withdrawal and spending**
 - **This is telling the legislature you have "x" amount to spend every year**
- **SB 114 does not change oil tax revenue (still straight to GF)**

SB 114: The SWAP- Rents and Royalties

- Currently,
 - 30% of all Royalties and Rents from
 - Oil, Gas and Federal Mining revenue
 - Deposited into the Permanent Fund corpus
 - 0.5% of R & R to School Trust Fund
 - 69.5% deposited to General Fund

SB 114: Rents and Royalties to Dividend



- 74.5% of all R&R would be deposited into the Dividend Fund
- No Permanent Fund Earnings would be used for Dividend
- SB 114: puts a floor (guarantee) of \$1,000 Dividends

SB 114: PF Reserve Earnings Account and the General Fund



- The exchange for R&R to Dividend Fund:
 - 5% of the total value of the Permanent Fund (Corpus + ERA)
 - Withdrawn from ERA
 - Deposited into General Fund
 - This is often called a Percent of Market Value (POMV) concept
 - Returns on PF investments average more than 5%
 - Thus you inflation proof the PF plus the 25% R&R deposit
 - The PF continues to grow

SB 114: PF Reserve Earnings Account and the General Fund Inflation Proofing?

Moody's Est. Return on Permanent Fund Investments = 6.8%

POMV Draw = 5%

To the Earnings Reserve Account = 1.8%

To the Corpus of the Permanent Fund = 25% of Royalties



SB 114: R&R vs. POMV Swap

The effect is \$2Billion reduction to deficit

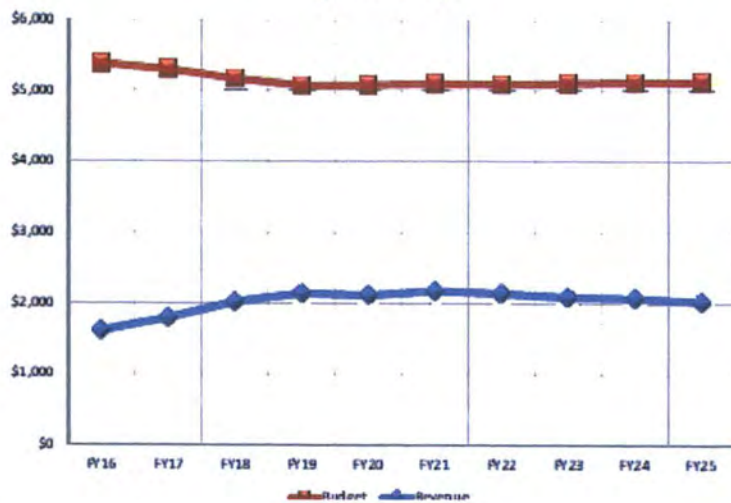
- 74.5% of R&R to Dividend Fund for equal Distribution
 - 2016= ~\$2,000 Dividend (status Quo)
 - 2017= ~\$1,150 Dividend (Revenue Source Book Fall 2015)
- 5% of Permanent Fund (\$51B) goes to General Fund
- FY17= \$2Billion NET INCREASE TO GENERAL FUND

This cuts the Deficit in HALF

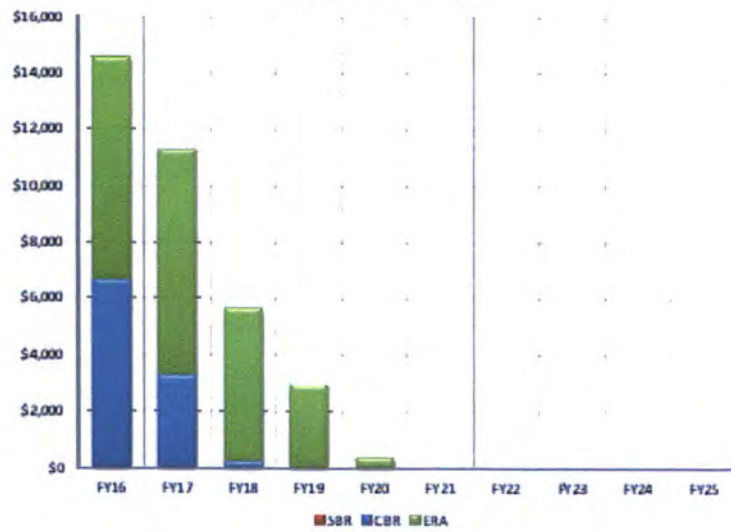
A map of the United States is shown in a dark blue color. Overlaid on the eastern half of the map is the flag of the European Union, which consists of a blue field with twelve yellow five-pointed stars arranged in a circle. The text "What is the cost of doing nothing?" is written in a bold, black, sans-serif font across the middle of the map, specifically over the eastern United States and the European Union flag.

What is the cost of doing nothing?

**UGF Revenue/ Budget
(\$ millions)**

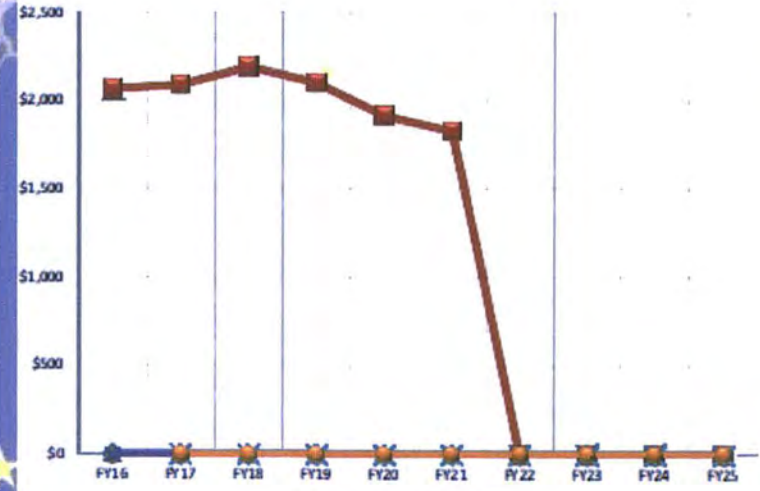


Budget Reserves

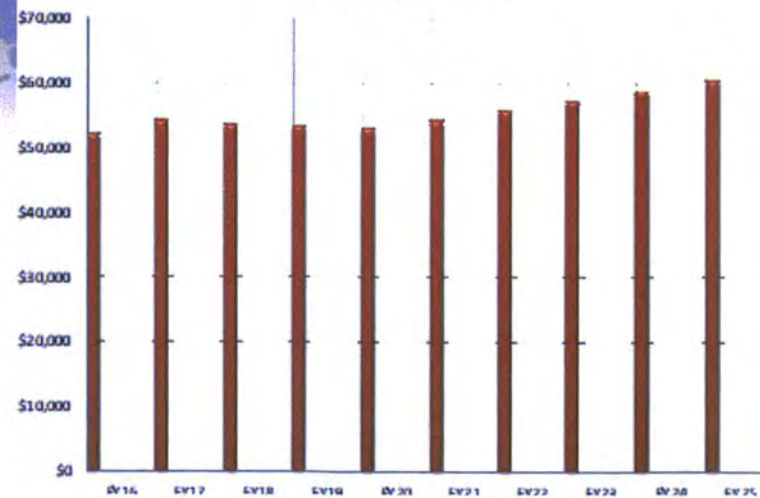


Status Quo

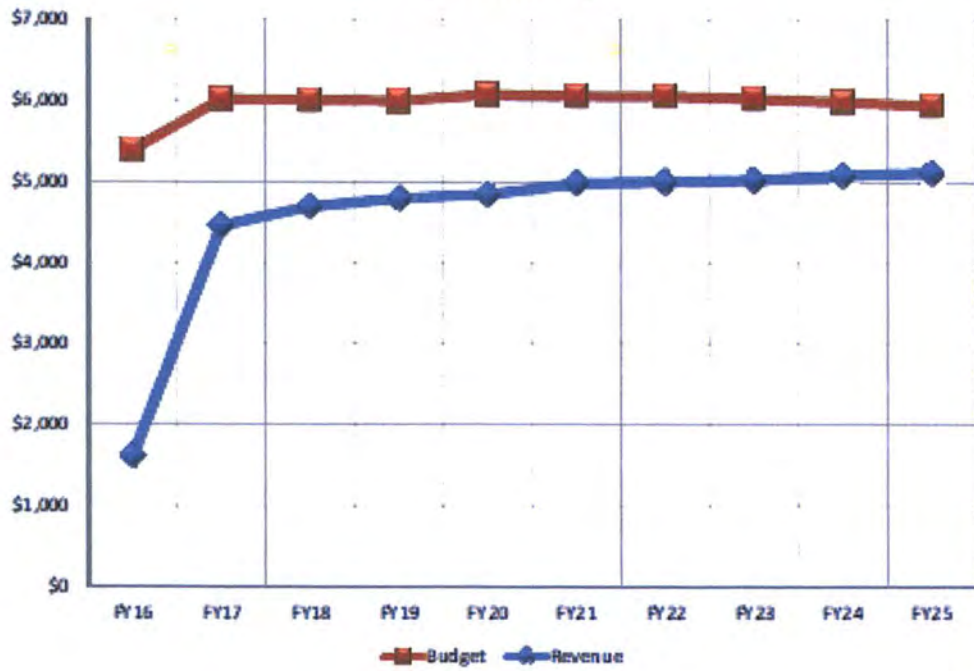
Dividend Check



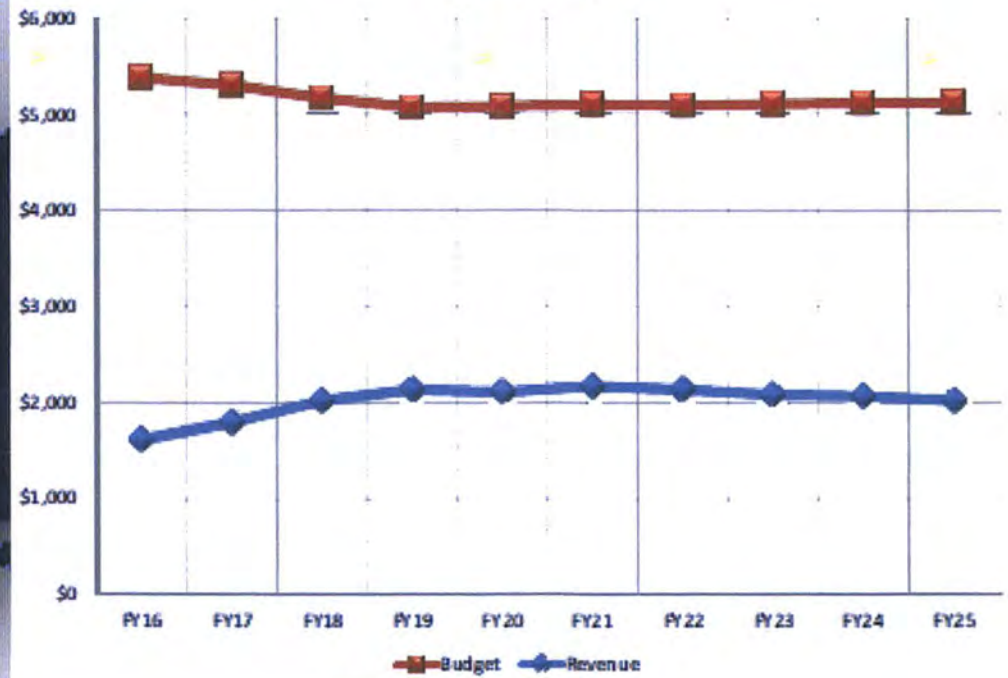
**Permanent Fund
FY Ending Balance**



UGF Revenue/ Budget
(\$ millions)



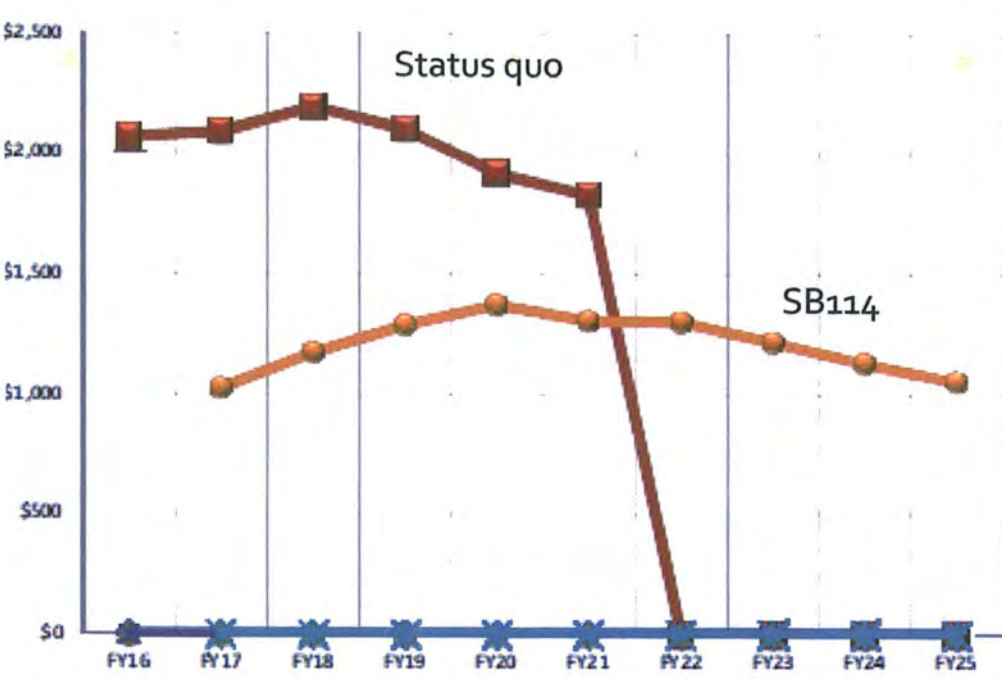
UGF Revenue/ Budget
(\$ millions)



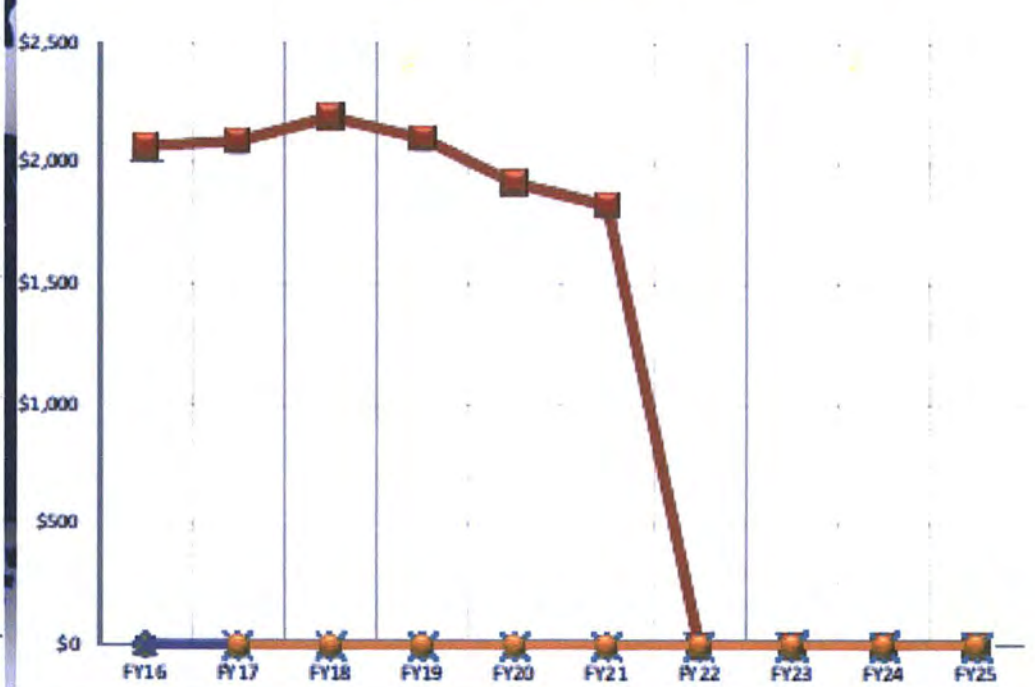
SB114

Status Quo

Dividend Check



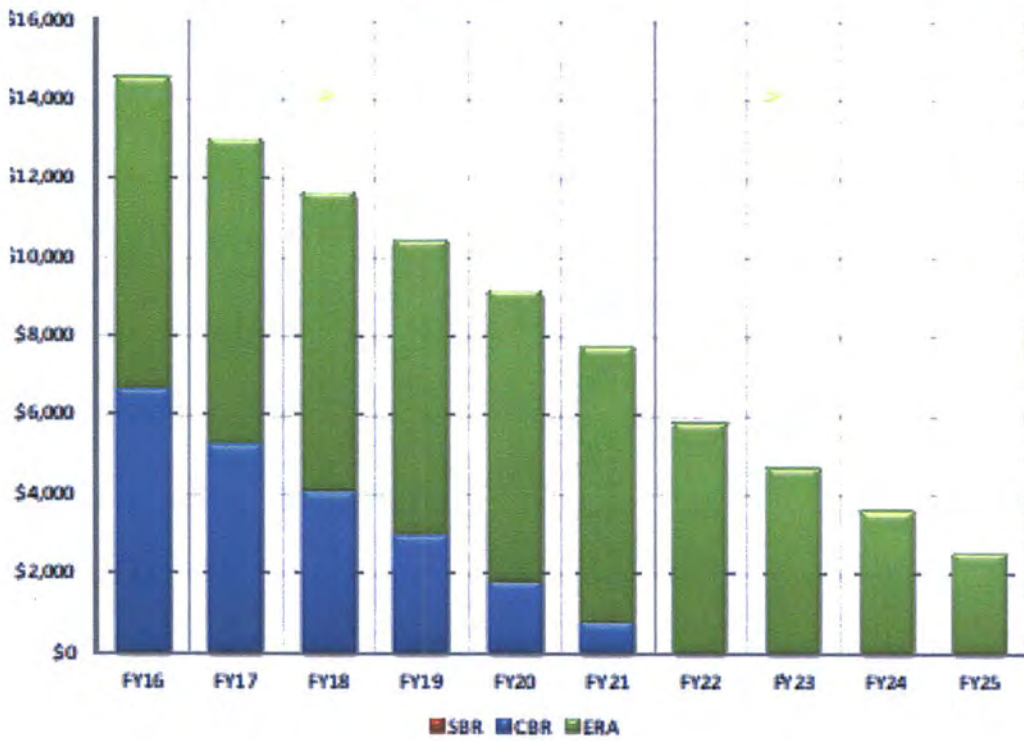
Dividend Check



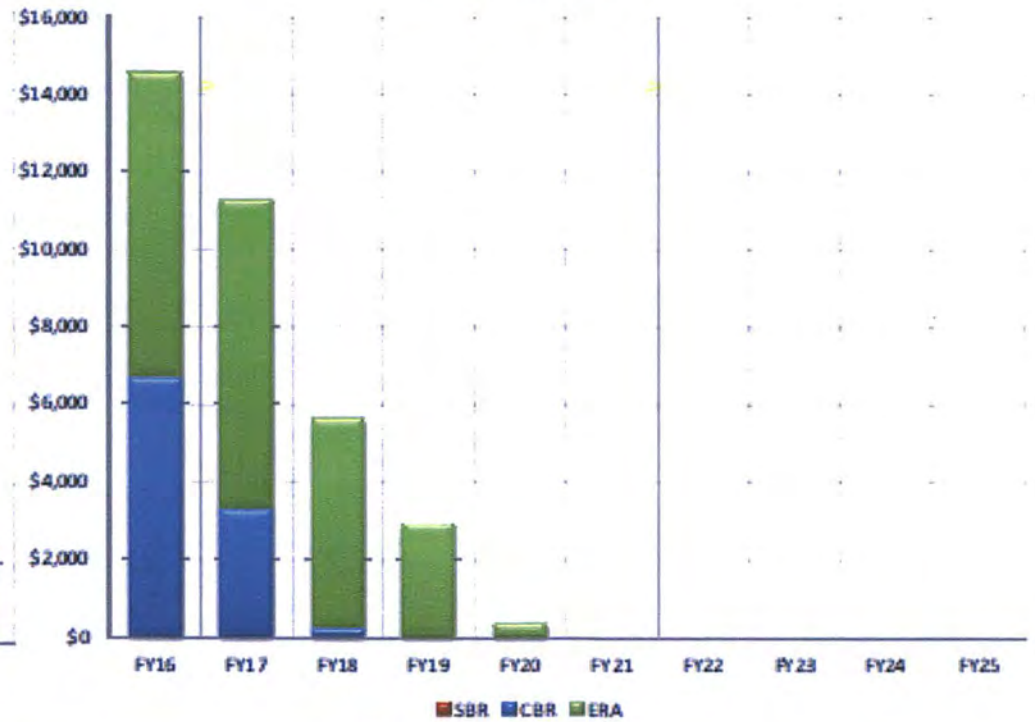
SB114

Status Quo

Budget Reserves



Budget Reserves

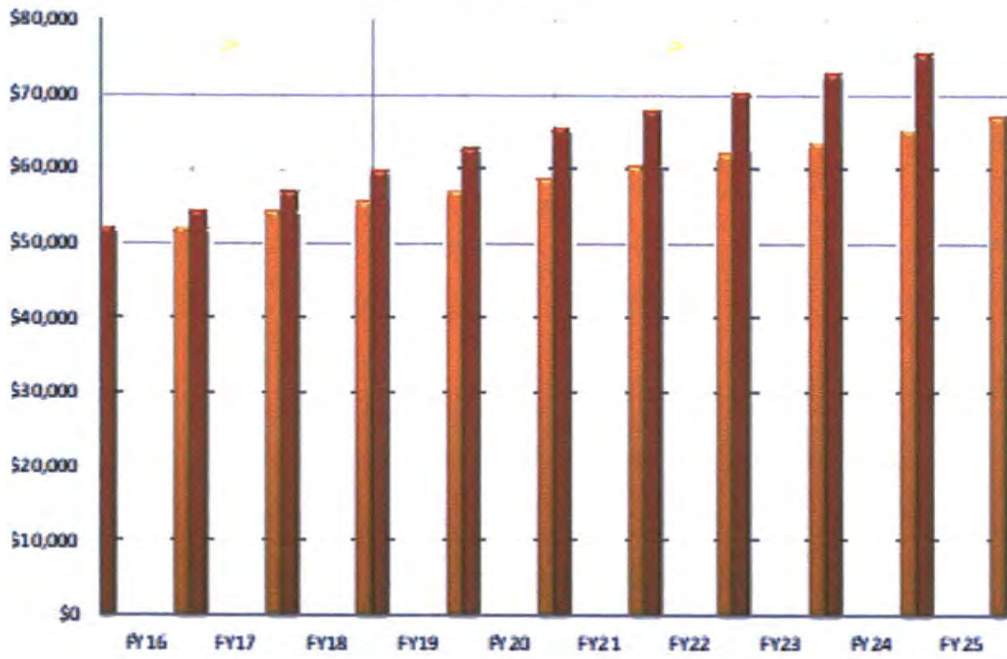


SB114

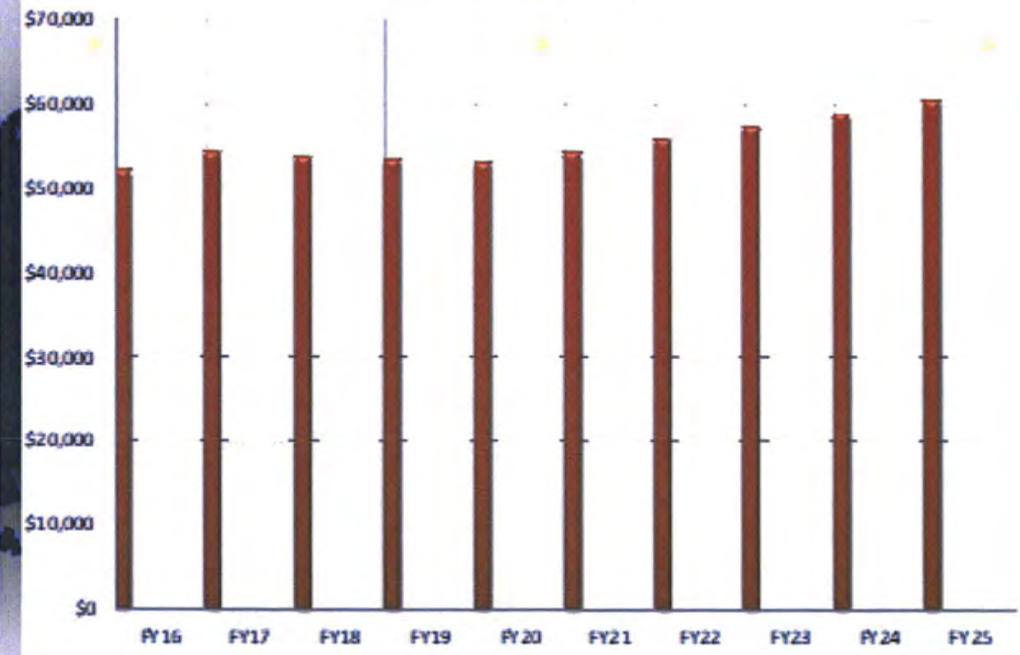
Status Quo



**Permanent Fund
FY Ending Balance**



**Permanent Fund
FY Ending Balance**



SB114

Status Quo

A Glide Path Forward

We need a plan to address this problem

"If I had one hour to solve a problem, I would spend 55 minutes thinking about the problem and 5 minutes thinking about the solution."

- *Albert Einstein*

In crafting SB114 I had these principles in mind:

- 1) The solution needed to retain a dividend
- 2) The solution needed to reduce the volatility in the state budget
- 3) The solution needed to clearly expose the size and cost of government so that downward pressure would ensure that Alaskans could begin an honest assessment of needs vs. wants
- 4) The solution needed to be enduring to allow maximum use of our wealth over generations so that benefits and burdens are shared
- 5) The solution needed to be Simple and Easy to Implement

SB 114: The overall effect

- **Ties the Dividend directly to Oil & Gas and Mineral production**
 - Currently structured to pay a dividend with a floor of \$1,000
 - Can be structured to pay a dividend of the average of last 5 years ~ \$1,300
 - Protects the Dividend for future generations
- **Reduces the CBR draw to cover deficit**
 - This will extend the life of the CBR several years
- **Gives the legislature "Glide Path" (breathing room) to consider**
 - Additional budget cuts
 - New sources of revenue
- **Maintains downward pressure on the operating budget- by not closing the gap**

This is considered "best practices" by other large endowment funds

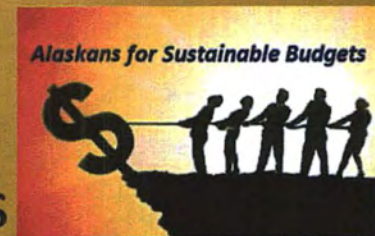
A stylized map of Alaska is shown in black silhouette against a light blue, textured background. The map is overlaid with a series of yellow stars that trace a path across the state. The path starts in the central-western part of the state, moves south and east, then north and east, and finally ends with a large star in the northern part of the state. The text "SB 114: Our Glide Path" is positioned in the lower-left area of the image.

SB 114: Our Glide Path

A Way Forward on the Alaska Budget

Senate State Affairs Committee
February 4, 2016

Brad Keithley
President, Keithley Consulting, LLC
Founder, Alaskans for Sustainable Budgets



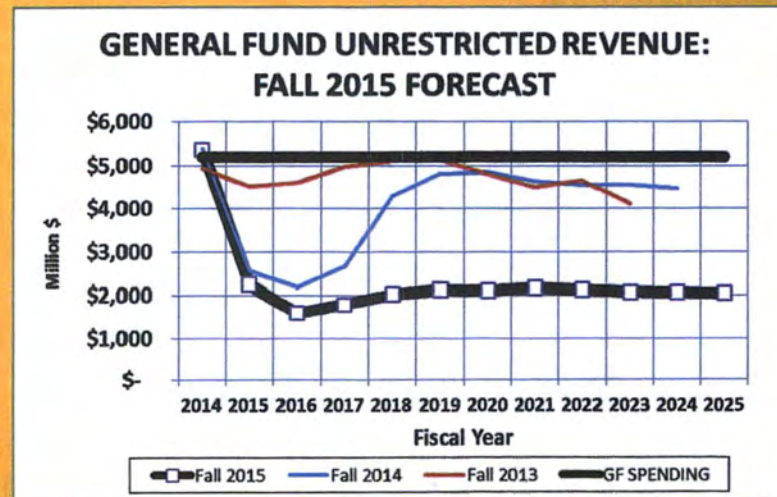
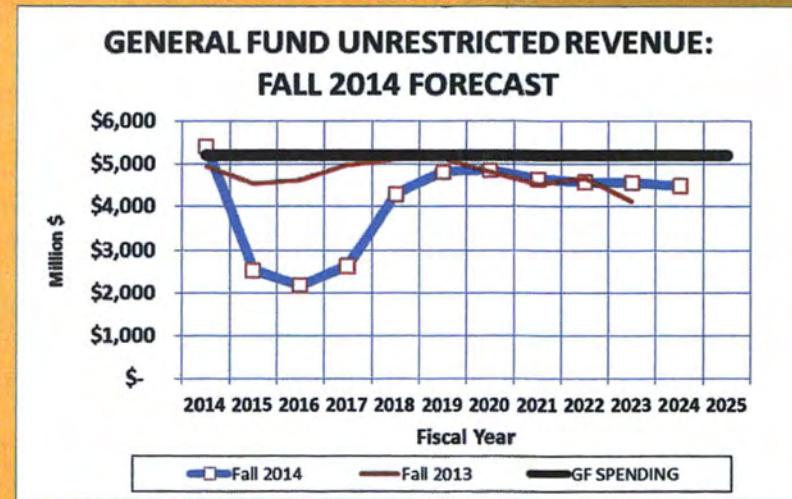
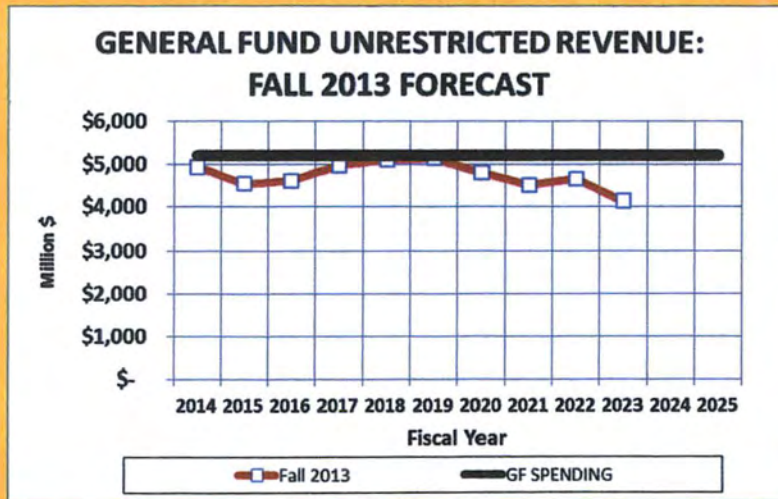
Three Key Points

- Alaska is facing a budget challenge, but how big is it
- There is a solid and realistic fiscal alternative that doesn't rely on PFD cuts or taxes
- SB 128 and SB 114 are unnecessary, are imbalanced (between the private and government sectors) and may do more harm than good to the overall Alaska economy

First Point

***Alaska is facing a budget challenge,
but how big is it***

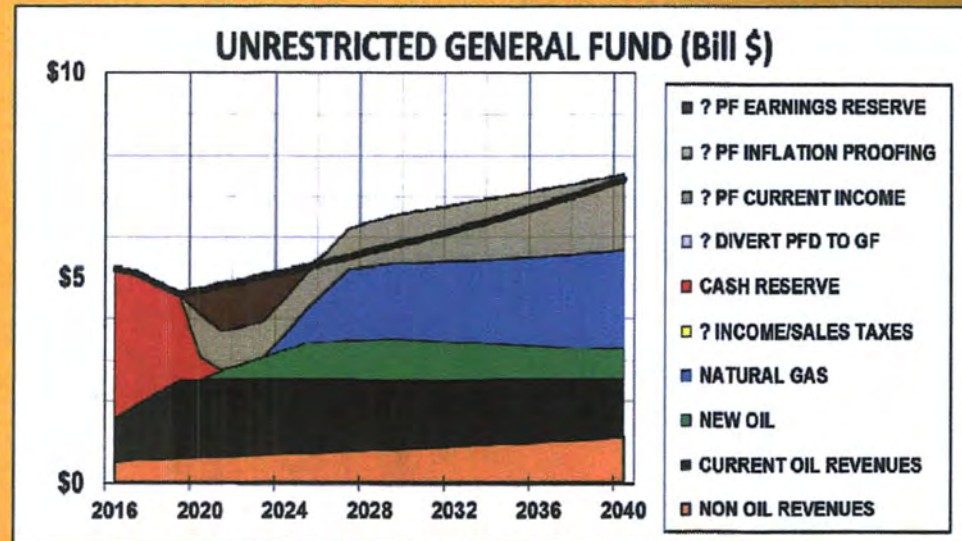
There is a challenge...



... but how big is it?

If assumptions are ...

- \$80/bbl by FY 2020 (v. FY 2022)
 - 3% production decline (v. 5%)
 - New oil, #AKLNG & use of PFER
 - Population growth of 0.5% (v. 1%), then
- ... long term sustainable revenue is \$4.3B (w/o PFD cut or taxes)**



CHOOSE ASSUMPTIONS AND USE THE FISCAL TOOLS TO CLOSE THE FISCAL GAP

CURRENT REVENUE ASSUMPTIONS		1 = ASSUMPTIONS FIXED AT BASE CASE WITH DOR PET REV, 2 = USER SUPPLIED		2	
FY 2017 REVENUE	2017 \$ 60	SR GR RATE	15.0%		
LR GF SWITCH	2020	LR GR RATE	2.5%		
FY 2017 PRODUCTION	BARRELS 550	GR RATE	-3.0%		
BASELINE	WHEN 2024	\$ / MCF	\$ 1.50		
NEW OIL - AARD	WHEN 2100	RELATIVE \$ / BARREL	50%	PEAK BARRELS	0
NEW OIL - PCS	WHEN 2100	RELATIVE \$ / BARREL	10%	PEAK BARRELS	0
TERMINAL REDUCTION	RATE 5.0%				
UGF SUSTAINABLE SPENDING FY 2017	\$ 4.31	Based on Current Revenue and use of financial asset income. Spending (including dividend) grows with inflation and population.		inflation	2.30%
				population grow	0.50%

The concern ...

- We are formulating fiscal policy projecting out from the bottom of a commodity cycle ...
... and as a result may be assuming we need to cut more spending – or raise more “new” revenue – than necessary when looked at from a long term perspective
... in short, the reverse of the overspending problem we experienced from 2011-14 (when the Gov & Legis assumed oil would rise forever)
- ***Alaska*** is a commodity based economy and as a result ***needs to take a long term budget view, not a one year snapshot***

Second Point

There is a solid and realistic fiscal alternative that doesn't rely on PFD cuts or taxes

Core Principles ...

- Use an approach that looks at the ***full commodity cycle*** and develops a balanced, sustainable approach that smooths through the revenue highs and lows
- Don't cut the PFD or impose other taxes if avoidable because of ***impact on Alaska's private economy*** – and if not avoidable, only to the extent it does not harm the overall Alaska economy (in short, don't overreact)

Approach

Best approach remains Goldsmith model

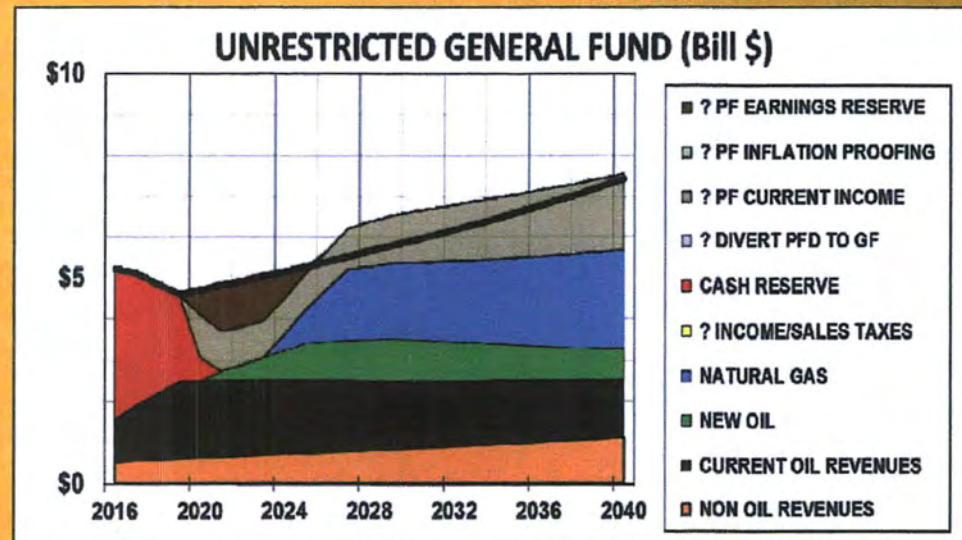
Keys

- Set spending at **long-term sustainable levels** based on best reasonable long-term forecast
- Use the **Permanent Fund earnings reserve** – the part remaining after PFD and inflation proofing – to act as the balancing mechanism
- Remain alert to **changes in key, long-term forecast variables** and adjust levels if there are significant, **long-term** changes

Revenues

If assumptions are ...

- \$80/bbl by FY 2020 (v. FY 2022)
 - 3% production decline (v. 5%)
 - New oil, #AKLNG & use of PFER
 - Population growth of 0.5% (v. 1%), then
- ... long term sustainable revenue is \$4.3B (w/o PFD cut or taxes)*

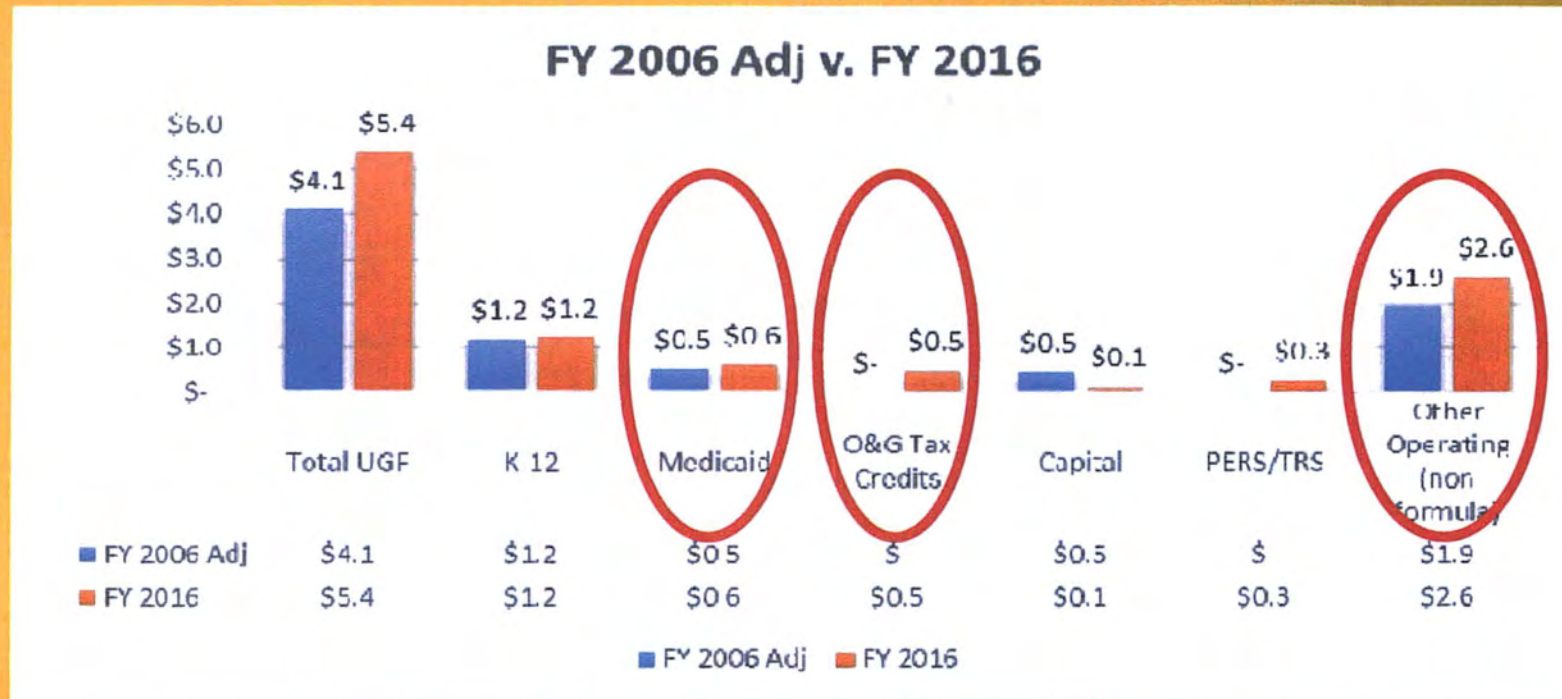


CHOOSE ASSUMPTIONS AND USE THE FISCAL TOOLS TO CLOSE THE FISCAL GAP

CURRENT REVENUE ASSUMPTIONS		1 = ASSUMPTIONS FIXED AT BASE CASE WITH DOR PET REV, 2 = USER SUPPLIED			
FY OIL PRICE	2017 \$ 60	SR GR RATE	15.0%		
	LR GF SWITCH 2020	LR GR RATE	2.5%		
FY 2017 PRODUCTION	BARRELS 550	GR RATE	-3.0%		
BASE PRICE	WHEN 2024	\$ / MCF	\$ 1.50		
NEW OIL - AMNH	WHEN 2100	RELATIVE \$ / BARREL	50%	PEAK BARRELS	0
NEW OIL - DCS	WHEN 2100	RELATIVE \$ / BARREL	10%	PEAK BARRELS	0
DEBIL. REDUCTION	RATE 5.0%				
UGF SUSTAINABLE SPENDING FY 2017	\$ 4.31	Based on Current Revenue and use of financial asset income. Spending (including dividend) grows with inflation and population.		inflation	2.30%
				population grow	0.50%

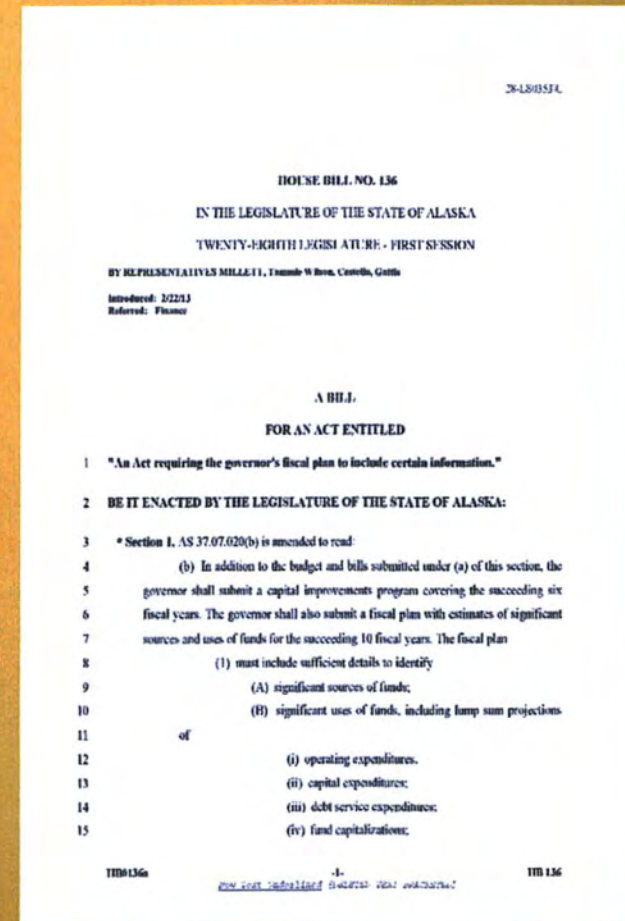
Spending Cuts

FY 2016 compared to FY 2006 adjusted for inflation and population growth ...



Implementation

- Starting point: HB 136 (28th Legislature):
“An Act requiring the governor's fiscal plan to include certain information”
- Reworked into an appropriate form, could be used as a substitute for Const. Art 9, Sec. 16 (“Appropriation Limit”)

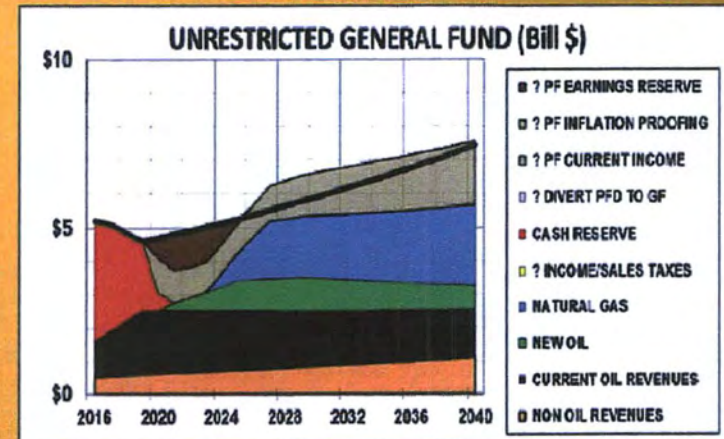


Third Point

SB 128 and SB 114 are unnecessary, are imbalanced (between the private and government sectors) and may do more harm than good to the overall Alaska economy

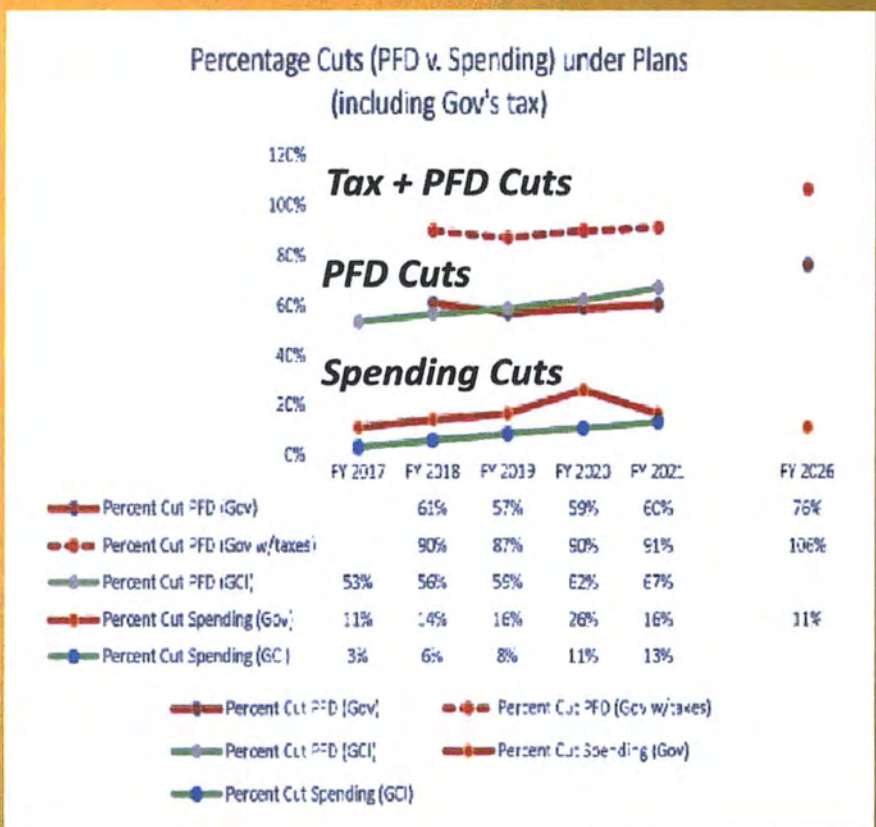
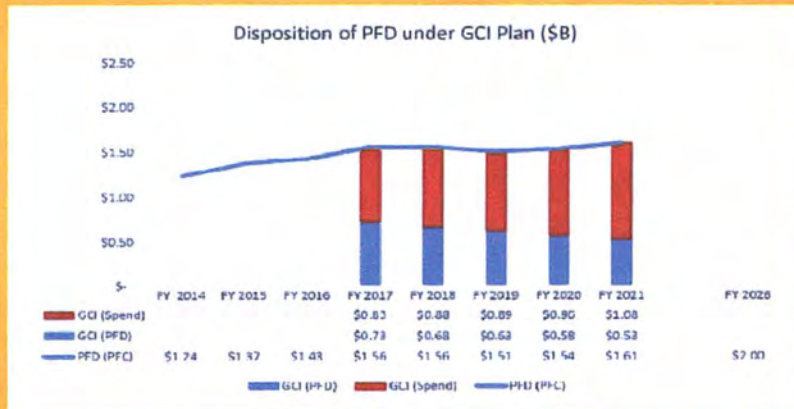
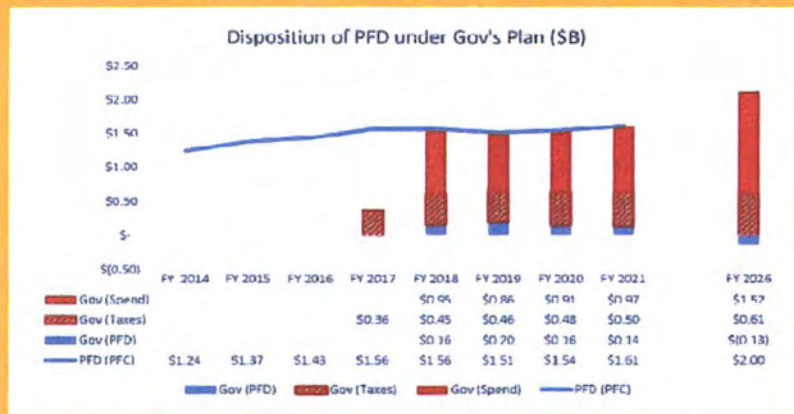
Unnecessary

- If the long-term sustainable revenue level is ~\$4.3 billion – and we can cut spending to that level – do we need to be adding revenue?
- ***Until we have a better feel for where long-term oil and gas markets are headed, there is no compelling case for long-term PFD cuts and taxes (i.e., overreacting)***



SB 128 and SB 114

SB 128 and SB 114 are imbalanced between spending (gov't sector) and PFD (private sector) cuts ...



Need to consider overall economy

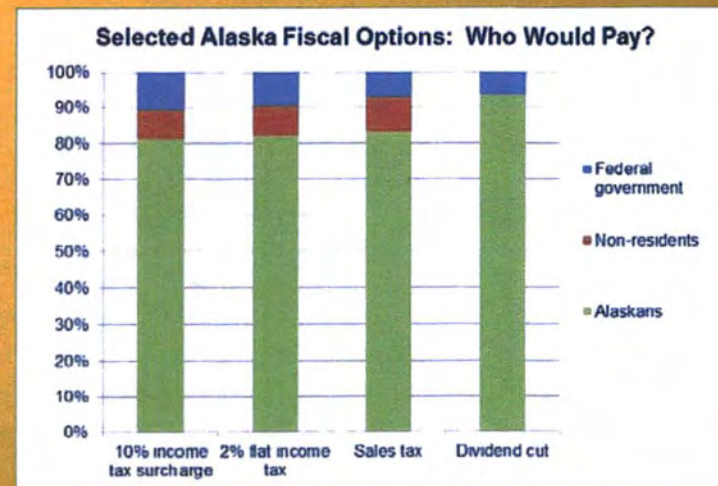
PFD cuts could do more harm than good ...

*“[M]ost of the cash from dividends will ultimately find its way into the Alaska economy to increase employment, population, and income. ... **[If the dividend instead had been diverted to state government,]** the most likely alternative use of the PFD would probably have been to increase capital spending by state government. ... **Capital spending would have generated less employment and increased income inequality.**” -- Dr. Scott Goldsmith (2010, looking back on prior experience)*

If new revenues are required, taxes do less harm than PFD cuts...

“Reducing dividends to produce the same amount of revenues as would the proposed income tax would actually cost Alaska more jobs and income than would re-imposing an income tax” – Dr. Scott Goldsmith (1987)

“... Alaskans are more likely to spend the Permanent Fund dividends ...; almost all of the dividend money is paid to persons actually living in Alaska; and Permanent Fund dividends are generally taxed at a lower rate ...”



My point ...

- If the long term sustainable revenue level is \$4.3 billion and we reasonably can reduce spending to that level, SB 128 and SB 114 are unnecessary
- The proposals also are imbalanced: They take much more from the private sector – through PFD and taxes – than they cut spending
 - While that helps the *government economy*, it comes at the expense of *Alaska's private economy*, which at \$30 oil is rapidly developing its own problems
 - Tradeoffs between the two are not a zero sum game (regional differences and can hurt the overall economy)

Three Key Points

- Alaska is facing a budget challenge, but it may not be as big as some suggest
- There is a solid and realistic fiscal alternative that doesn't rely on PFD cuts or taxes
- SB 128 and SB 114 are unnecessary, are imbalanced (between the private and government sectors) and may do more harm than good to the overall Alaska economy

Accessing Permanent Fund Earnings to Reduce the Fiscal Gap

by

Scott Goldsmith

Institute of Social and Economic Research
University of Alaska Anchorage

Presented to

Alaska Senate State Affairs Committee

Anchorage, Alaska

February 4, 2016

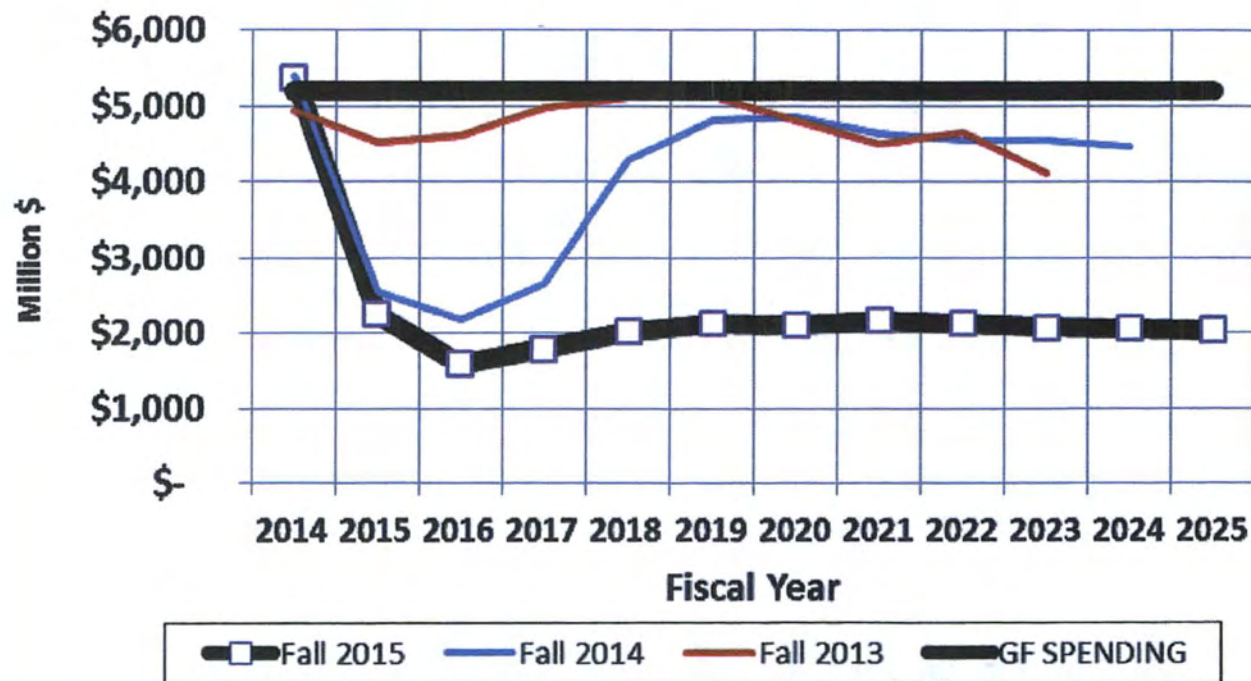
Institute of Social and Economic Research
University of Alaska Anchorage

Outline for Today

- The Gap
- Bogus Solutions
- 3 Real Tools in the Kit
- The Biggest Tool—Use Asset Earnings
- Compare Proposals to Use Earnings
- Assumptions
- Criteria for Choice
- Fragile Economy

Fiscal Gap: New Reality?

GENERAL FUND UNRESTRICTED REVENUE: FALL 2015 FORECAST



2015 based on \$50 oil

Fiscal Gap : Bogus Solutions

- Higher Oil Price
- Hold Our Breath
- Gas Line
- Nickel and Dime Solutions
- Zombie Solutions
- Silver Bullets?

Fiscal Gap : 3 REAL Tools

- MORE BUDGET CUTS
- INCOME TAX/SALES TAX/PFD REDUCTION
- EARNINGS FROM STATE ASSETS

PICK ANY 3 FROM THE LIST ABOVE!

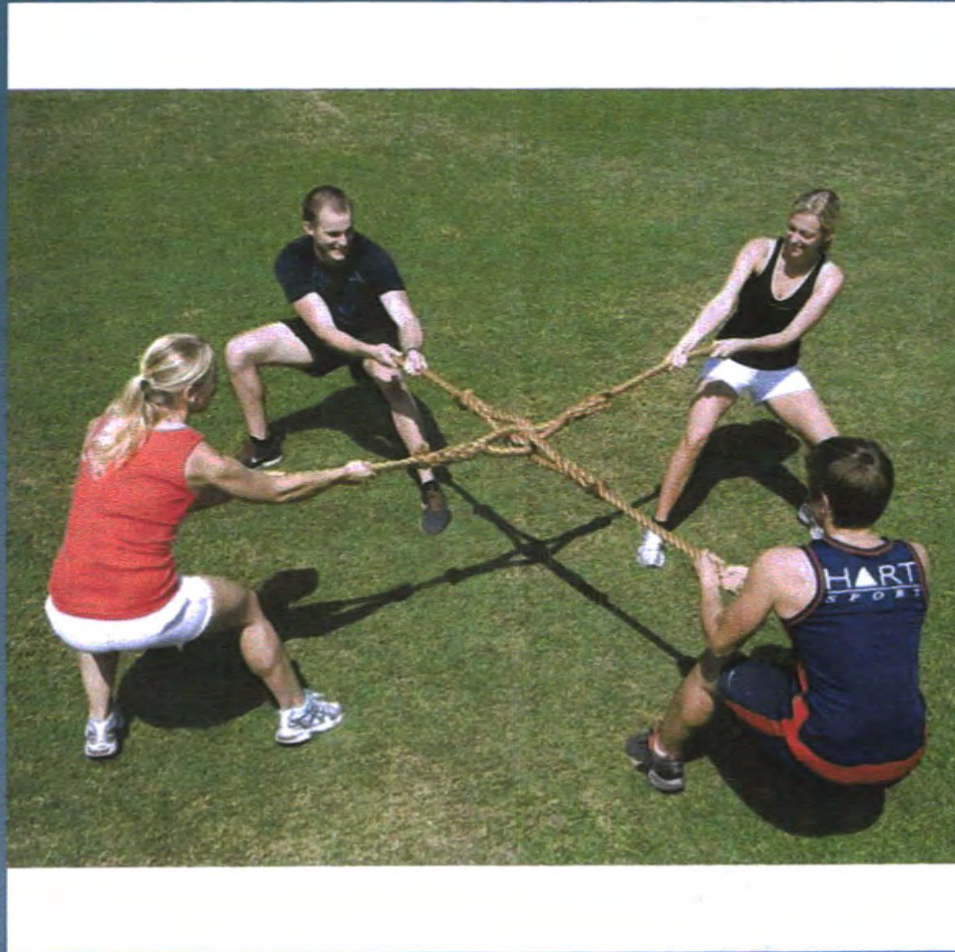
Use Permanent Fund Earnings: Why Start Here & Why Start Now

- Biggest single tool in solution
- No solution without this tool
- Centerpiece of a workable GAME PLAN
- No negative economic impact
- Positive economic impact from confidence boost
- Relatively easy to implement
- And.....

Buy Time to Prepare for the Inevitable and Prolonged Tug of War

No
Income
Tax!

No
Sales
Tax!



No
Dividend
Cuts!

No More
Budget
Cuts!

Proposals for Use of Earnings

MECHANISMS

- ◆ STABILITY—SB128 ALASKA PERMANENT FUND PROTECTION ACT
 - Dump SB21 revenues and royalties into PF
 - Draw \$3.3 Billion from PF Earnings Reserve for UGF (inflation adjusted amount that sustains PF value)
 - Pay PF Dividend from 50% of Royalties

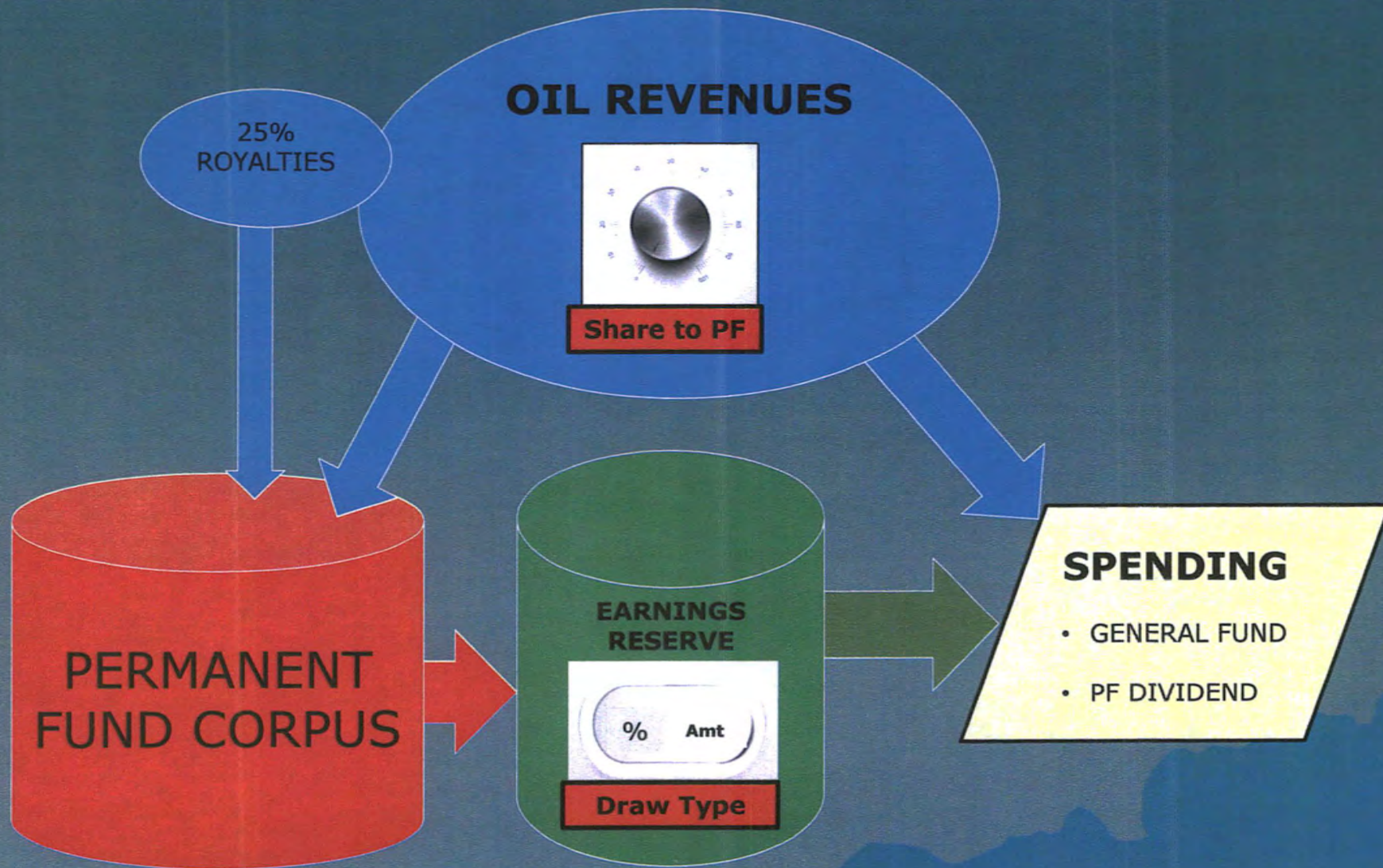
- ◆ IMMEDIATE PLUG--SB114
 - Draw 5% of PF value from PF Earnings Reserve for UGF
 - Pay PF Dividend from 50% of Royalties

TARGET

SUSTAINABILITY—“Goldsmith Plan”

- Dump all Petroleum Revenues into Permanent Fund
- Draw amount from PF Earnings and Earnings Reserve that can be Sustained and allow PF to continue to grow
- Divide draw between UGF and PF Dividend

All Proposals: 2 Policy Switches Control Spending from Endowment



All Proposals: Common Objectives

Reduce
Deficit
Today



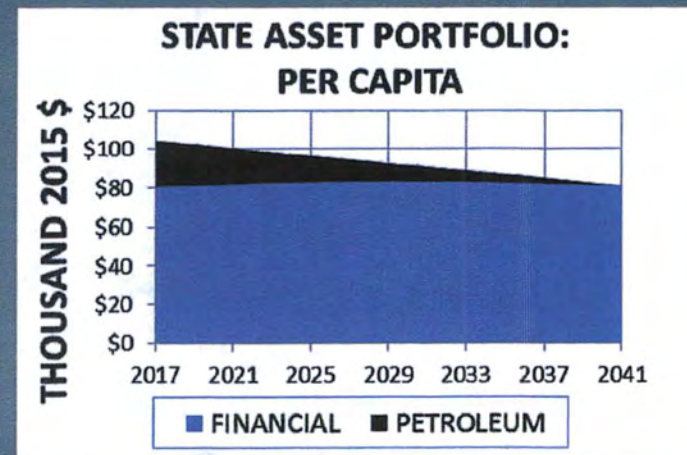
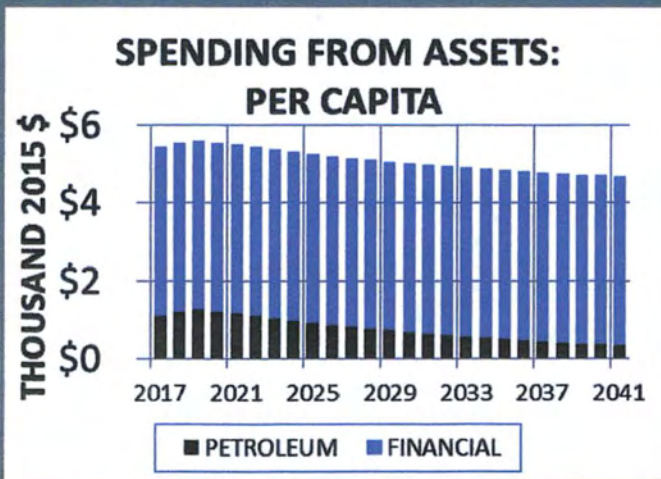
Sustain
Assets for
Tomorrow

Tradeoff SB128

PF Draw (2017) -- a fixed amount that maintains future value of PF

TOTAL	\$4.25
PF	\$ 3.3
Pet Rev	\$.83

Spend starts high, declines, and total asset value falls

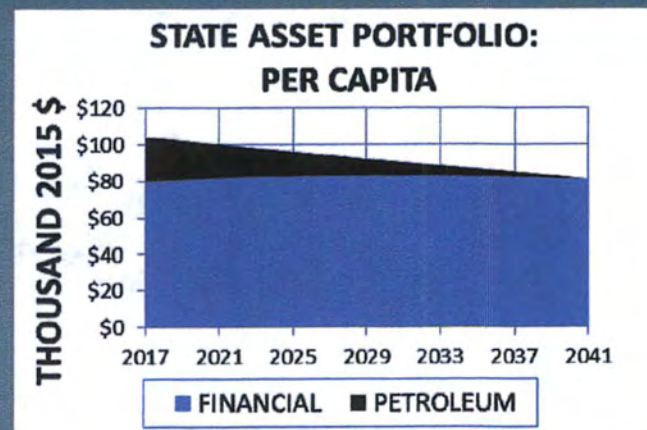
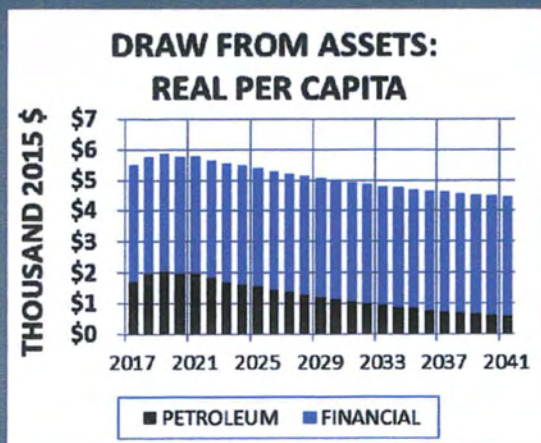


Tradeoff SB114

PF Draw (2017) -- a fixed percentage of PF value

TOTAL	\$4.07
PF	\$ 2.8
Pet Rev	\$ 1.27

Spend starts high, declines slowly, and total asset value falls slowly

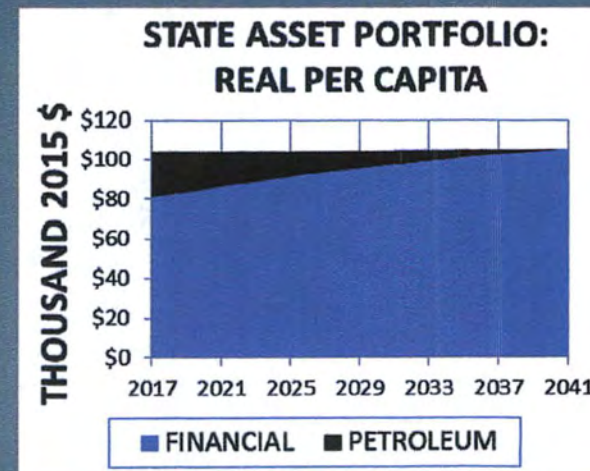
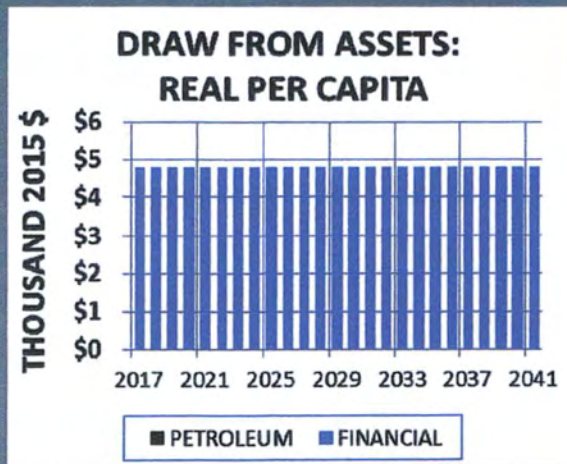


Tradeoff Sustainable Spending

PF Draw (2017) -- a fixed amount that maintains future value of PF + unproduced petroleum

TOTAL	\$3.55
PF	\$ 3.55
Pet Rev	\$ -

Spend starts lower, draw and asset value both stay constant



Which Draw Mechanism Produces the Best Sustainability Tradeoff?

- Do we care about the future?
- What do we think the future will look like as petroleum production continues to fall?

A spending level based on current financial assets and the projected future petroleum revenue stream which, if adopted now, could be maintained consistently long into the future--adjusted for inflation and population growth.

Dealing with Volatility & Risk: Future Petroleum Revenues?

		TOTAL	PFD	SS-UGF	Pet Rev
1	Early 2014	\$5.4	\$1.4	\$4.5	DOR price and production, + gasoline, new production
2	Early 2015	\$4.52	\$1.4	\$3.66	DOR price and production, + gasoline, new production
3	Early 2015 (3yr ma)	\$4.39	\$1.4	\$3.53	DOR price and production, + gasoline, new production
4	Early 2015	\$3.72	\$1.4	\$2.85	DOR price and production, + new production
5	Early 2015	\$3.55	\$1.4	\$2.68	DOR price and production

Approximating a Draw Mechanism: Total Spend from 3 Proposals

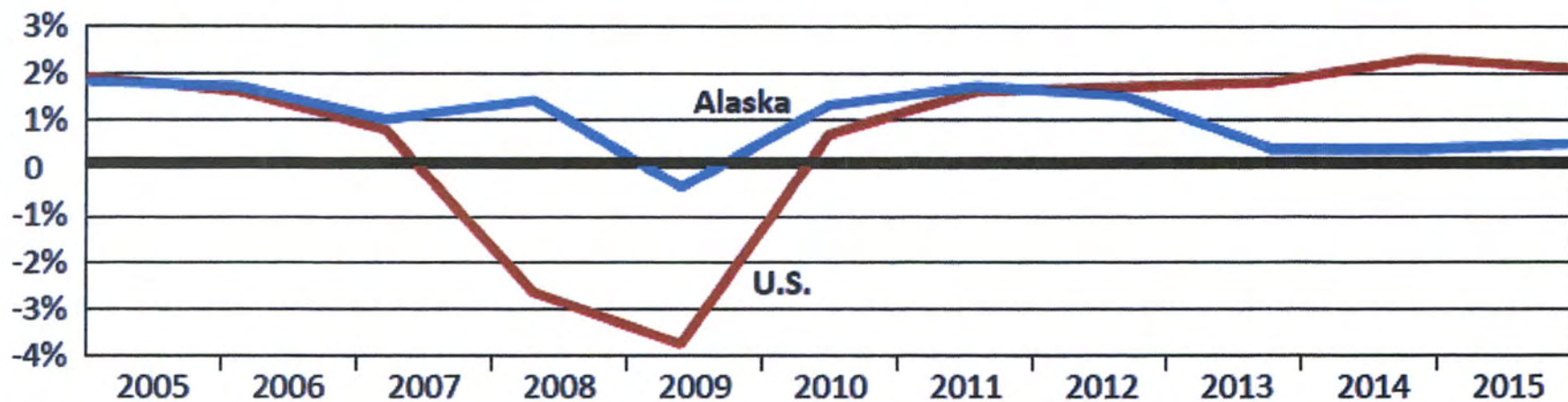
	2017 TOTAL SPEND	Tradeoff	Future Petroleum Revenues
SB128	\$4.25	Favor today	Conservative
SB114	\$4.07	Favor today	Conservative
SS	\$3.55	Balanced	Conservative
SS (3yr ma)	\$4.39	Balanced	More optimistic

Criteria for Choice for Draw Mechanism

- SUSTAINABLE
- IMPLEMENTABLE
- FAIR
- DISCIPLINED
- FLEXIBLE
- MINIMIZES UNINTENDED CONSEQUENCES

Fragile Economy

Job Growth in Alaska and the Nation⁴



Strategy Moving Forward ?

- ◆ THIS YEAR (at a minimum)
 - Budget Cuts
 - Structured Use of PF Earnings
 - Business and Use Taxes

- ◆ NEXT YEAR
 - 4 Sided Battle
 - ◆ More budget cuts
 - ◆ Income tax
 - ◆ Sales tax
 - ◆ Dividend reduction

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Fiscal Note

State of Alaska
2016 Legislative Session

Bill Version: SB 114
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB114SS-DOA-VCCB-02-03-16
Title: PERM FUND: EARNINGS, DEPOSITS,
ACCOUNTS
Sponsor: MCGUIRE
Requester: (S)STA

Department: Department of Administration
Appropriation: Violent Crimes Compensation Board
Allocation: Violent Crimes Compensation Board
OMB Component Number: 2694

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2017	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2017 Request	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
OPERATING EXPENDITURES	FY 2017	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Personal Services	***		***	***	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	***	0.0	***	***	***	***	***

Fund Source (Operating Only)

None							
Total	***	0.0	***	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

--	--	--	--	--	--	--	--

Estimated SUPPLEMENTAL (FY2016) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2017) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Not known
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable. Initial version.

Prepared By: <u>Kate Hudson</u>	Phone: <u>(907)465-5525</u>
Division: <u>Violent Crimes Compensation Board</u>	Date: <u>02/03/2016 05:00 PM</u>
Approved By: <u>Sheldon Fisher, Commissioner</u>	Date: <u>02/03/16</u>
Agency: <u>Department of Administration</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2016 LEGISLATIVE SESSION

BILL NO. SSSB 114

Analysis

The financial impact of this bill on the Violent Crimes Compensation Board is indeterminate but potentially will significantly reduce available funding. The bill will change the way in which the permanent fund dividend is calculated, and it is more likely than not that the amount of the dividend will decrease as a result. Accordingly, the bill is likely to have the effect of significantly reducing the current source of state funding for the Violent Crimes Compensation Board (appropriation from the PFD fund) without any indication of how that funding would be replaced.

This appropriation is not the only source of funding for the Violent Crimes Compensation Board. The Board also receives an annual federal grant. However, this is a formula grant, predicated on the prior year's certified state expenditures. Thus, if less state money is available to spend on grants to victims of crime, so federal funding would decrease the following year, hence zero revenue in FY16 onwards.

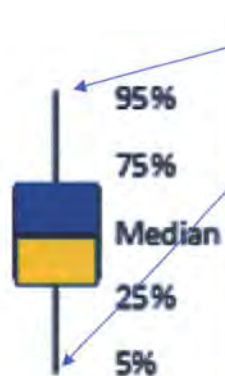
Dividend Forecast

Comparing the dividends anticipated under the status quo, the Alaska Permanent Fund Protection Act (SB 128), and SB114

February 23, 2016

Department of Revenue, Economic Research Group

How to read box plots



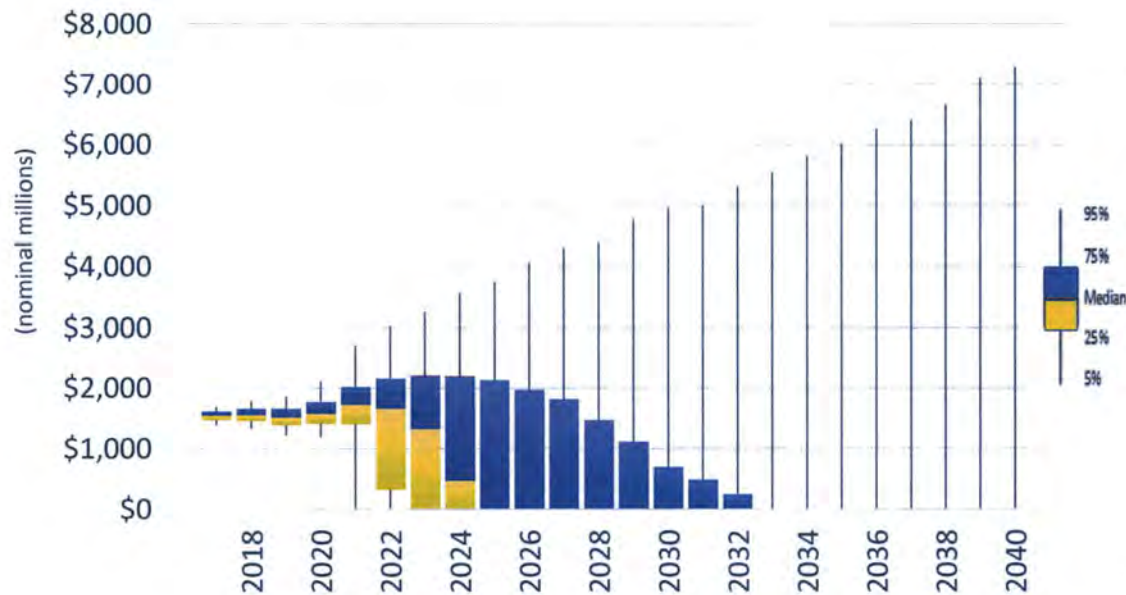
- We are 90% confident that the true value will be between the top and bottom of “whiskers” (the thin lines coming out of the box)
 - There is a 5% chance that the true value will be above the top
 - There is a 5% chance that the true value will be below the bottom
- We are 50% confident that the true value will be in the shaded area
- The line between the blue and yellow areas is the median
 - There is a 50% chance that the true value will be above the median
 - There is a 50% chance that the true value will be below the median

Scenarios

	Status Quo	APFPA	SB 114
Deposits	<ul style="list-style-type: none"> • Mineral Royalties <ul style="list-style-type: none"> • 30% deposited in the Permanent Fund corpus • 69.5% deposited in the General Fund • Production Taxes: 100% deposited in the General Fund • Realized Investment Income: deposited in the ERA 	<ul style="list-style-type: none"> • Mineral Royalties <ul style="list-style-type: none"> • 25% deposited in the Permanent Fund corpus • 74.5% deposited in the ERA • Production Taxes: 100% deposited in the ERA • Realized Investment Income: deposited in the ERA 	<ul style="list-style-type: none"> • Mineral Royalties <ul style="list-style-type: none"> • 25% deposited in the Permanent Fund corpus • 74.5% deposited in the dividend fund • Production Taxes: 100% deposited in the General Fund • Realized Investment Income: deposited in the ERA
Withdrawals	<ul style="list-style-type: none"> • Dividend: approximately half of 21% of the last 5 years of realized earnings drawn from the ERA • UGF: deficit filled with draw from ERA after CBR is exhausted 	<ul style="list-style-type: none"> • Dividend: 50% of prior year mineral royalties from the ERA • UGF: \$3.3 billion (adjusted for inflation starting in 2020) draw from the ERA to the General Fund 	<ul style="list-style-type: none"> • Dividend: <ul style="list-style-type: none"> • 74.5% of prior year royalties allocated to the dividend • Supplemental funds for the \$1,000 dividend floor drawn from the ERA • UGF: 5% POMV draw from the ERA to the General Fund

Status Quo: projected dividend appropriation

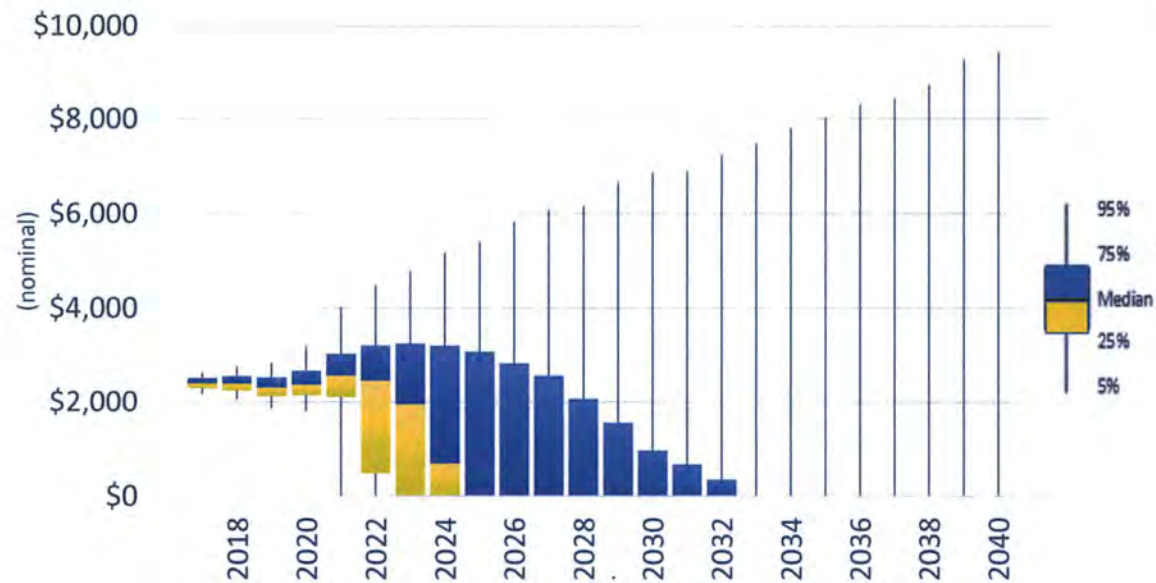
Limited by funds available after using earnings reserve to cover deficit once CBR depleted



- Under the status quo, we can anticipate appropriating between \$1.5 and \$1.7 billion each year for the dividend.
- However, the ongoing deficit would require drawing from the CBR and ERA for UGF expenditures as well. We expect to begin drawing from the ERA for UGF expenditures around FY19.
- Assuming we continue to pay dividends after FY19 when the ERA is the only source of funds to close the deficit, the ERA would likely be depleted by the end of FY22. Once savings are spent, only annual realized earnings are available for both the dividend and UGF expenditures.
- The expected result of the status quo is an inability to fund the dividend after 2024. But, this moment could arrive sooner; there is a chance that there will not be funds available for the dividend as soon as 2021.

Status Quo: projected dividends per person

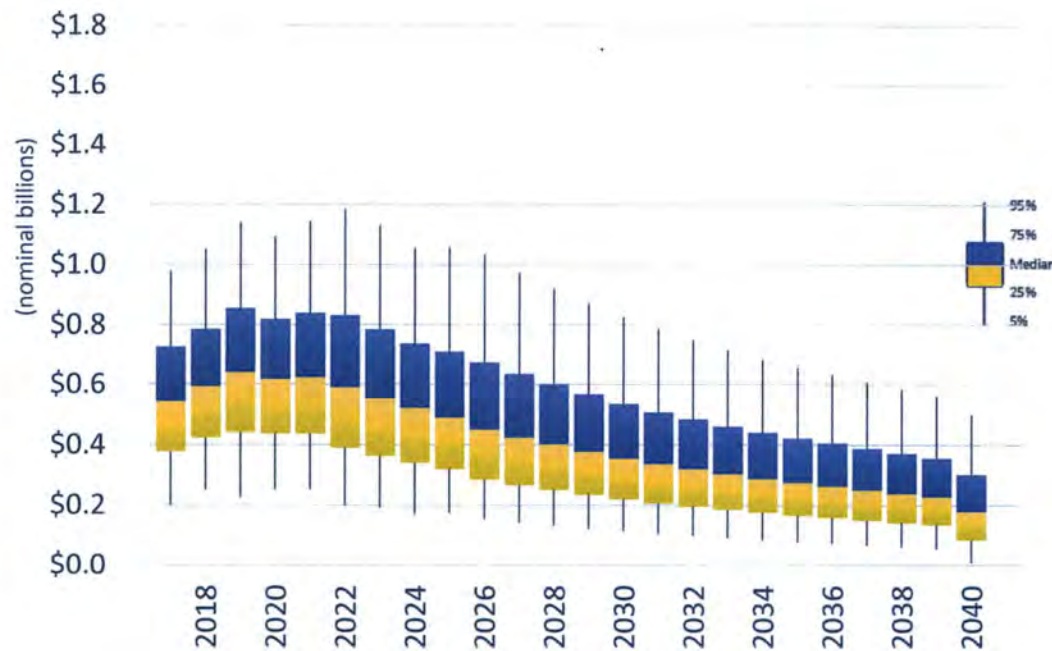
Limited by funds available after using earnings reserve to cover deficit once CBR depleted



- Under the status quo, we can expect dividends to exceed \$2,000 through 2022 or 2023.
- It is uncertain whether we would continue to pay dividends once the ERA is the only savings available for UGF expenditures (expected in FY19).
- But, the savings in the ERA will likely be depleted by FY22. Once savings are spent, only annual realized earnings are available for both the dividend and UGF expenditures. As a consequence, dividends will decline sharply beginning in 2023.
- There likely will not be adequate funds for the dividend after 2024.

APFPA: projected dividend appropriation

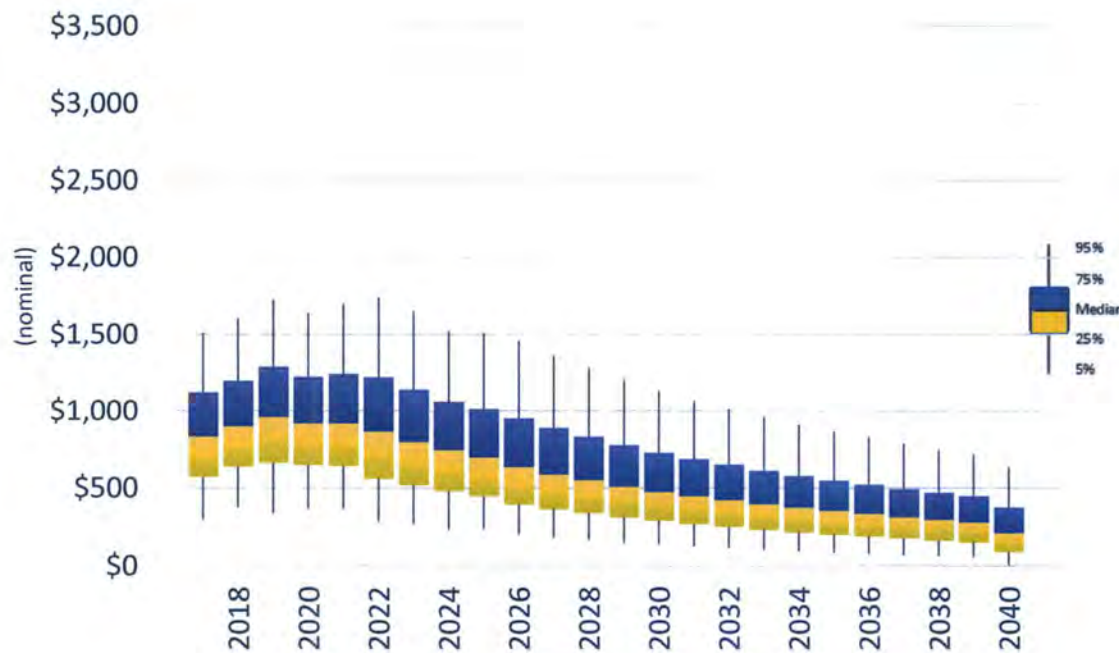
50% of royalties received in the prior fiscal year



- The APFPA proposes to allocate 50% of mineral royalties to the dividend program.
- This dividend formula means appropriating around \$0.6 to \$0.7 billion for dividends in the next several years. While this is less than the formula under the status quo, the revenue stream allocated to dividends is separate from UGF needs and continues far into the future.
- Dividends increase or decrease with the success or failure of resource development in Alaska.
- The trend in this graph reflects the trend in the Department of Revenue's conservative production forecast.
- There is great potential for additional development beyond what is reflected in the official forecast.

APFPA: projected dividends per person

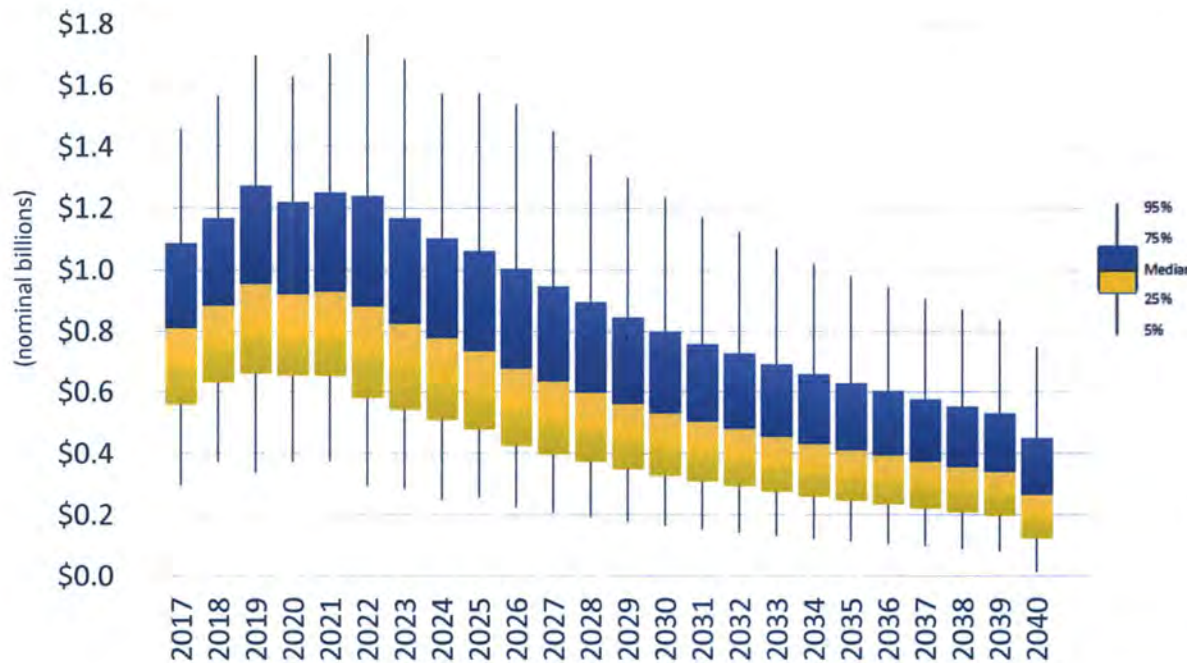
50% of royalties received in the prior fiscal year



- The APFPA proposes to allocate 50% of mineral royalties to the dividend program.
- \$1,000 dividend guaranteed for 2016
- Thereafter, we can expect dividends around \$1,000 for the next decade. While this is less than the formula under the status quo, the dividend survives into the future.
- Dividends increase or decrease with the success or failure of resource development in Alaska. As long as resources continue to be produced from Alaska, the dividend also continues.
- The trend in this graph reflects the trend in the Department of Revenue's conservative production forecast.
- There is great potential for additional development beyond what is reflected in the official forecast.

SB 114: projected dividend appropriation

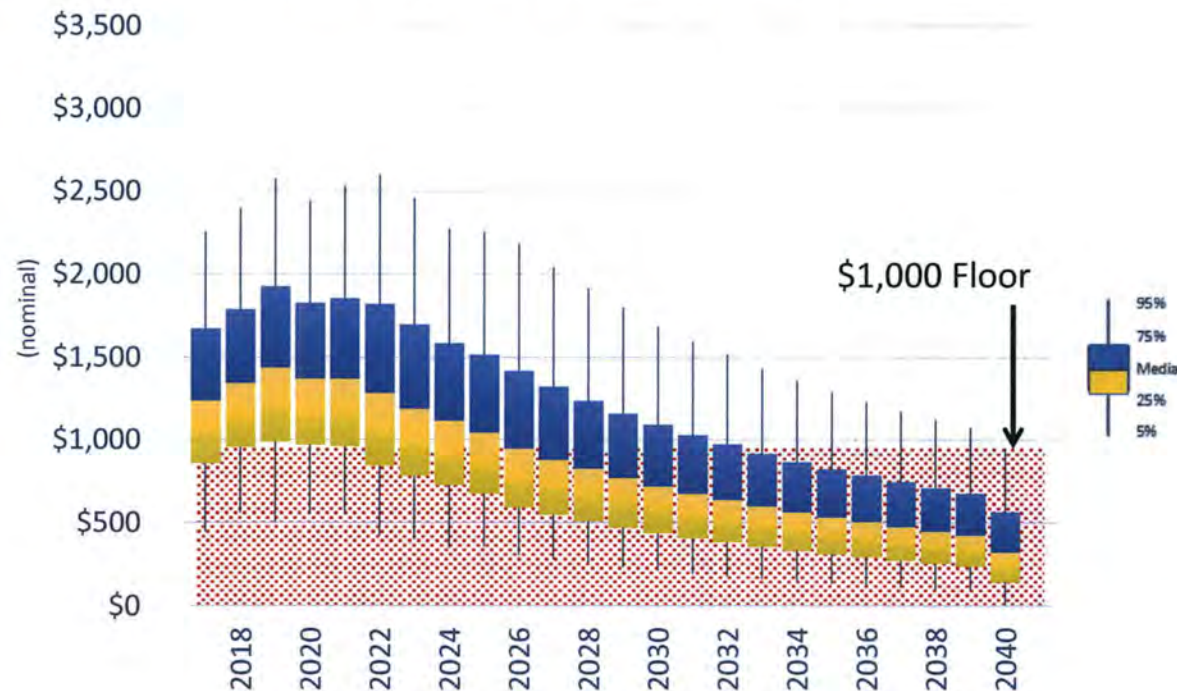
74.5% of royalties received in the prior fiscal year



- SB 114 proposes to allocate 74.5% of mineral royalties to the dividend program.
- This formula means appropriating around \$1 billion for the dividend. While this is less than the formula under the status quo, the dividend can be paid for a longer period.
- As with the APFPA formula, dividends increase or decrease with the success or failure of resource development in Alaska.
- As shown in slide 13, this is not the total amount appropriated for dividends under SB 114. Additional funds must be taken from the ERA to maintain the \$1,000 floor.
- The trend in this graph reflects the trend in the Department of Revenue’s conservative production forecast.
- There is great potential for additional development beyond what is reflected in the official forecast.

SB 114: projected dividends per person

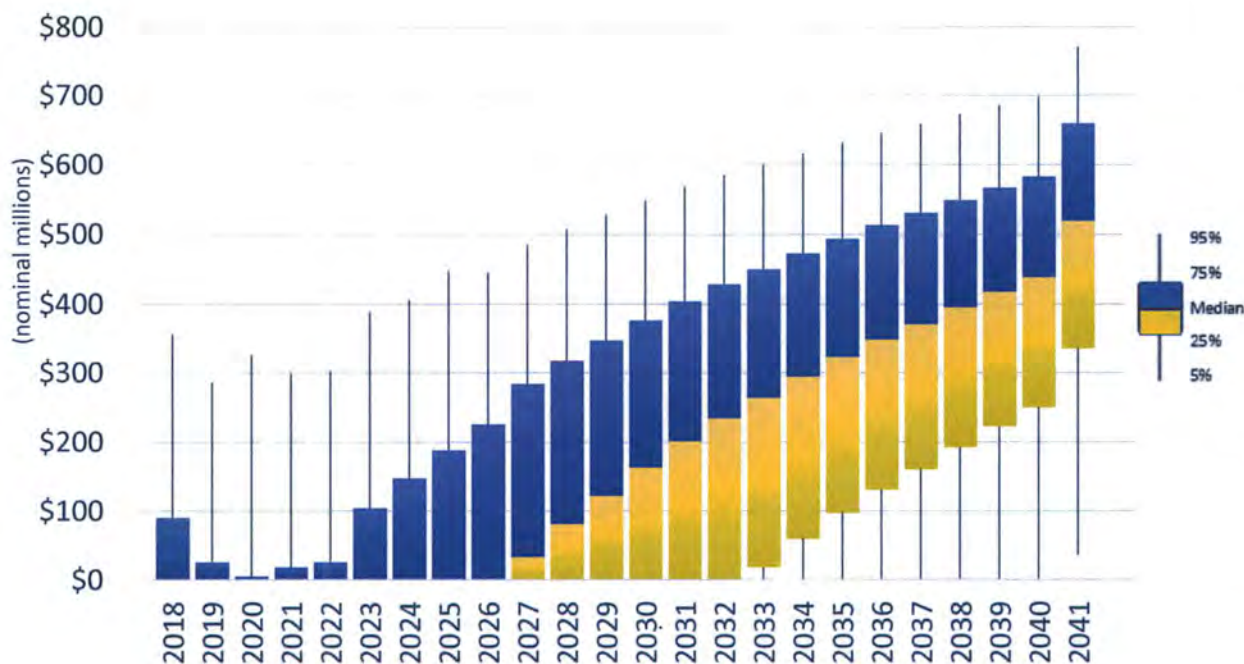
74.5% of royalties received in the prior fiscal year



- SB 114 proposes to allocate 74.5% of mineral royalties to the dividend program.
- This formula results in dividends that are 50% higher than proposed in the APFPA, but following the same production forecast trend.
- SB 114 also has a dividend floor of \$1,000 per person.
- To maintain the floor, we expect additional funds will be needed from the ERA to supplement the royalties by 2026. That said, there is better than a 1 in 4 chance that supplemental funds may be needed as soon as 2018.
- The trend in this graph reflects the trend in the Department of Revenue’s conservative production forecast.
- There is great potential for additional development beyond what is reflected in the official forecast.

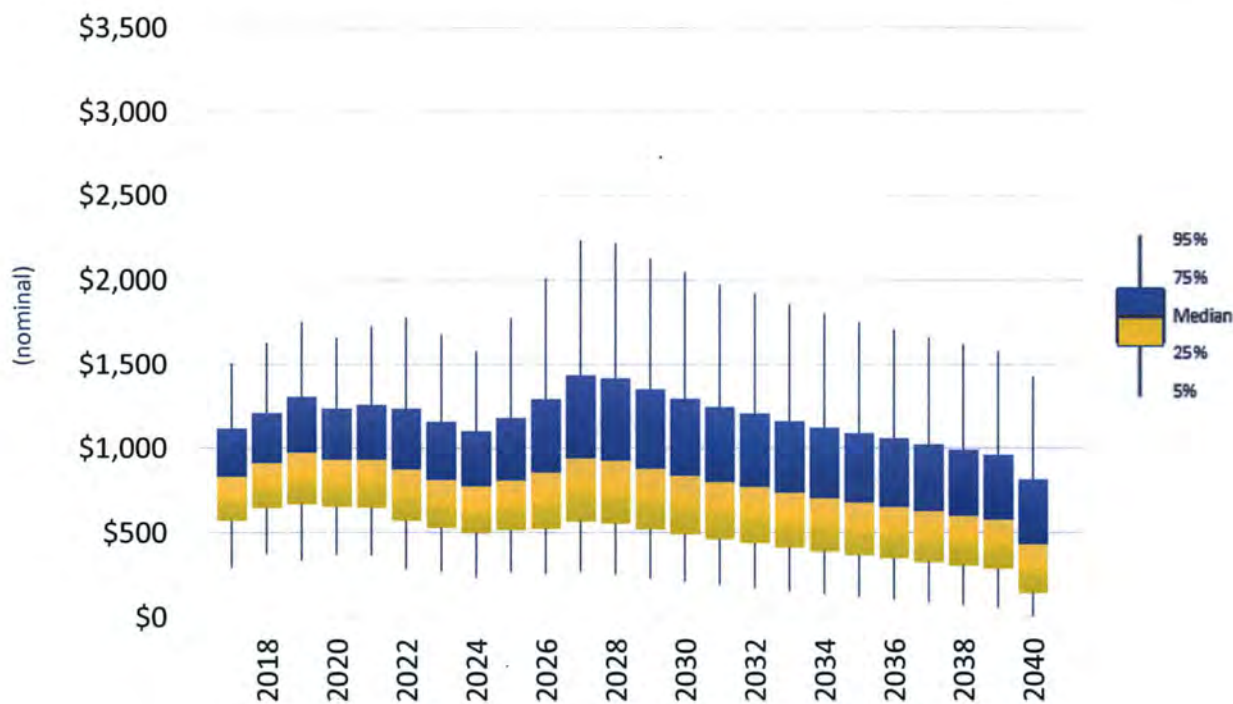
SB 114: dividend floor

Supplemental funds need to maintain the \$1,000 dividend floor from the ERA



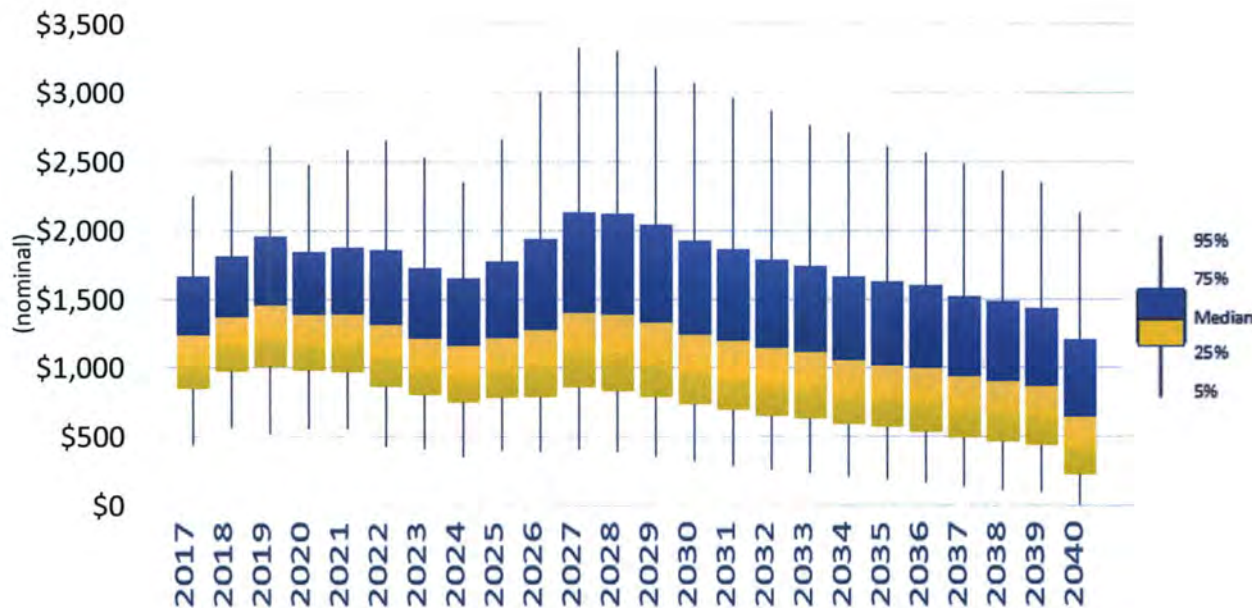
- SB 114 provides a floor of \$1,000 per person on the dividend.
- Royalties may not be enough to provide a \$1,000 dividend as production declines or under low oil prices.
- SB 114 draws from the ERA to cover the shortfall and maintain the \$1,000 floor. These supplemental draws are in addition to the 5% POMV draw. This graph shows the projected draws needed to maintain the floor.
- To maintain the floor, we expect additional funds will be needed from the ERA to supplement the royalties by 2024. That said, there is better than a 1 in 4 chance that supplemental funds may be needed as soon as 2018.

APFPA: projected dividends per person with a gas line



- A dividend formula based on mineral royalties increases with new projects and production not reflected in the official production forecast.
- By example, this chart shows the impact of additional royalties resulting from the construction of a gas line.

SB 114: projected dividends per person with a gas line



- A dividend formula based on mineral royalties increases with new projects and production not reflected in the official production forecast.
- By example, this chart shows the impact of additional royalties resulting from the construction of a gas line.

Potential Increases North Slope Production

Increases in production will increase the dividend beyond the current forecast: values for 50% royalty dividend

Peak Rate Increment (barrels/day)	Rate-Comparable Pools, Peak Basis	Potential Size (millions of barrels recoverable)	Likelihood of Individual New Pools Placed on Production*	Impact on per person dividend per pool at peak year
10K	Tabasco, Meltwater, O3 Kuparuk Pools	20-50	Highly Likely (up to 10 or more pools?)	\$20-\$30
50K	10% less than Milne Kuparuk Pool, 20% less than Lisburne Pool	150-250	Highly Likely (several pools?)	\$100-\$150
100K	25% higher than Northstar Ivishak Pool, 33% less than Endicott Pool	300-500	Likely (a few pools?)	\$220-\$280
500K	40% higher than Kuparuk Pool	3,000-6,000	Very Unlikely (one at the most?)	\$1000-\$1500
1,000K	~3x maximum Kuparuk Pool rate 55% lower than Prudhoe Pool	7,000-10,000	Extremely Unlikely	\$2250-\$2750

* Qualitative estimates. Assumes development of certain discoveries, considers assessed undiscovered resource, likelihood and extent of exploration access to ANWR, OCS, and NPRA, and assumes at least three decade timeframe (TAPS remains mechanically and commercially viable through 2045 or longer). Does not attempt to capture unconventional (heavy oil, shale oil) not currently economically exploited on the North Slope.

Method, Inputs, and Assumptions

- Forecast produced from the Alaska Permanent Fund Protection Act model, *available at* <http://gov.alaska.gov/Walker/priorities/new-sustainable-alaska-plan.html>
- **Permanent Fund Starting Value:** \$52 billion
 - Realized portion of corpus: \$40 billion
 - Realized portion of earnings reserve account: \$6.5 billion
 - Unrealized earnings held by the fund: \$5.5 billion
- **Constitutional Budget Reserve Starting Value:** \$7 billion
- **Investment Return:** Callan Associate's 10-year forecast
 - Total return: 6.9% geometric, 13.90% standard deviation
 - Statutory return: P10 = 3.70%, P50 = 6.01%, P90 = 8.14%
- **Petroleum Revenues**
 - **Oil price:** mean outcomes from probabilistic analysis of ANS oil prices using a PERT distribution from the fall price forecasting session. *See* Fall 2015 RSB (pages 33 and 104); *also see* note on slide 4 of this document
 - **Production:** Fall 2015 RSB (page 39)

Method, Inputs, and Assumptions

- Dividend Recipients: Department of Labor population forecast with dividend participation rate from historic data
- Dividend Program Costs: Department of Revenue estimate of \$8 million, increasing with inflation. The forecast does not include any other transfers from the dividend fund
- Status Quo Draws for UGF: FY16 budget net of unrestricted General Fund revenues. The calculation likely underestimates the UGF draw as it does not account for anticipated growth in formula programs or large projects.

2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
\$3,150	\$3,124	\$2,951	\$3,061	\$3,112	\$3,241	\$3,390	\$3,517	\$3,640	\$3,812	\$3,963

- When earnings reserve account funds are limited priority is given first to the UGF transfer, then to the dividend transfer, and finally to the inflation proofing transfer to the Permanent Fund corpus
- Unless otherwise stated, all dollar amounts are in nominal terms.
- Unless otherwise stated, years are the calendar year in which the dividend is paid.

Method, Inputs, and Assumptions

- Though the model uses the same underlying data, the petroleum revenues vary slightly from those reported in the Fall 2015 RSB for the reasons stated in this excerpt from page 43 of the RSB
- For the gas line scenarios, natural gas was converted to barrels of oil equivalent (BOE)

At times, the department's forecast numbers may appear different for different analyses even if they come from the same data source. This can happen for many reasons and does not necessarily discount other analyses, nor should it be considered an "error."

One example is in petroleum revenue forecasting, where results can differ depending on whether the department uses confidential company-specific data versus statewide aggregated summary data.

Another example where differences can occur is when the department provides deterministic and probabilistic results of oil revenue calculations. The *Revenue Sources Book* relies more heavily on deterministic (single-value) inputs and results. A probabilistic analysis of oil revenues brings the possibility of higher prices in the petroleum tax calculation, and because the tax calculation is progressive at higher prices, results can be higher than a deterministic analysis utilizing the same basic price data.

Therefore, even though all the department's models start with the same set of data, the results can differ depending on assumptions about central tendency and the distribution of potential results.

Projected AKLNG BOE Royalty Barrels								
Fiscal Year	2018	2019	2020	2021	2022	2023	2024	2025
Millions bbl/day	0.008	0.008	0.008	0.008	0.008	0.008	0.014	0.055
Fiscal Year	2026	2027	2028	2029	2030	2031	2032	2033
Millions bbl/day	0.109	0.171	0.182	0.179	0.176	0.173	0.171	0.168
Fiscal Year	2034	2035	2036	2037	2038	2039	2040	
Millions bbl/day	0.166	0.164	0.162	0.160	0.158	0.156	0.155	



Reducing the Deficit: Investing Alaska's Vast Cash Reserves

Senate Bill 114

Senator Lesil McGuire

Senate State Affairs

2/9/16

The Permanent Fund and the Dividend



November 1976- Voter Approved Constitutional Amendment Creating the Permanent Fund

2/21/1977- 9th Legislature

Created Permanent Fund thru CS to SS to HJR 39

-to convert a part of the depleting petroleum asset into a permanent and sustainable financial asset- (Goldsmith, 2002)

Zobel v. Williams (Argued: 10/7/1981, Decided: 6/14/1982) US Supreme Court

HELD: The Alaska Dividend distribution plan violates the guarantees of the Equal Protection Clause of the 14th Amendment

1982 The first Permanent Fund Dividend

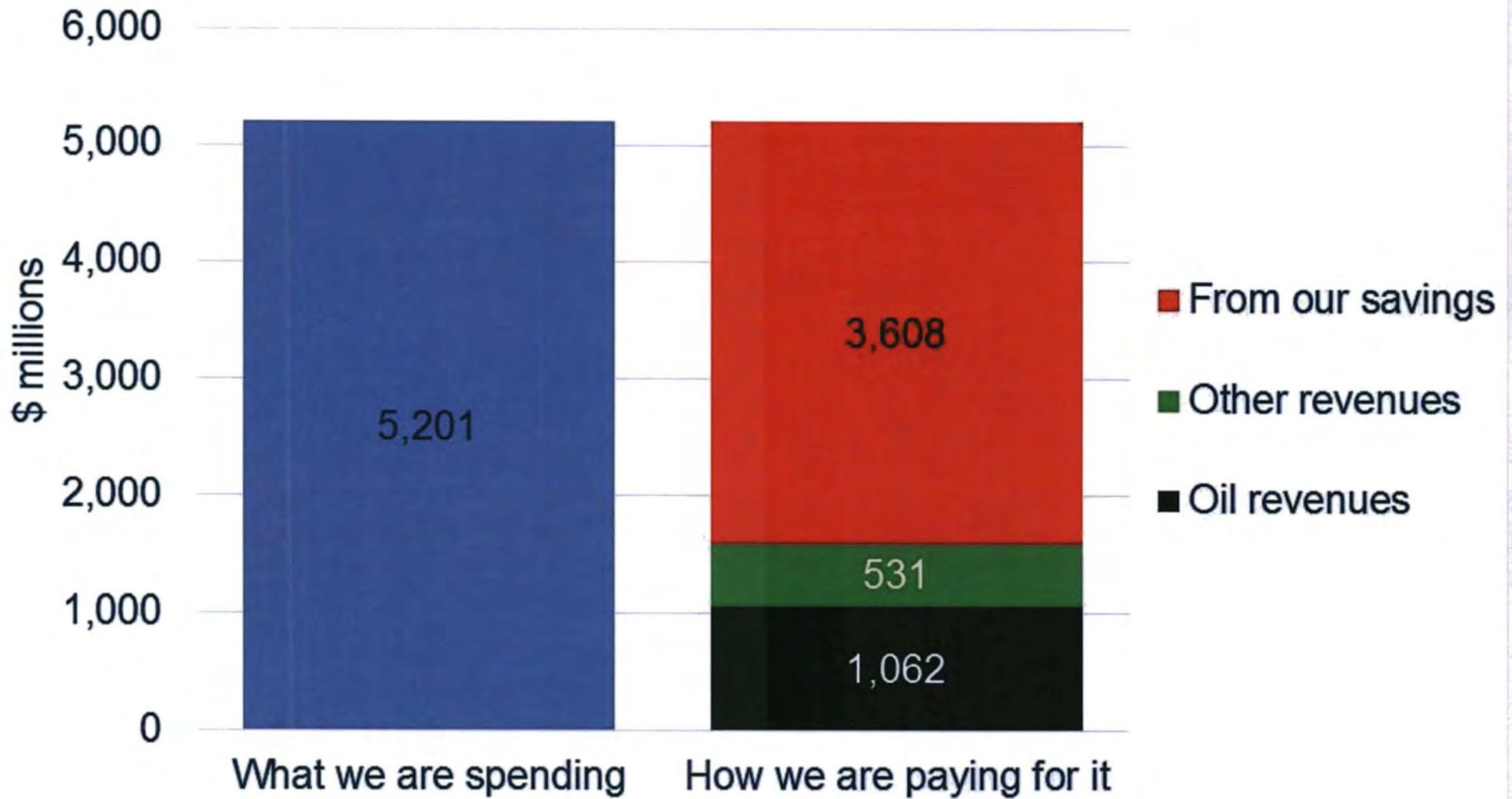
Created by a statutory overlay on the constitution (signed into law 4/16/1980)

Is there a Problem?

A \$3.5-4 Billion Deficit

- The legislature has enacted heavy spending cuts over the last 2 years
- The state has several savings accounts, but
Revenue models show that if oil prices do not rebound, those savings will be gone in about 2 years
- We cannot wait and hope for high oil prices
- The price of inaction now could be disastrous for the state's future

Alaska's Fiscal Situation This Year (FY16)



The Five Stages of Grief

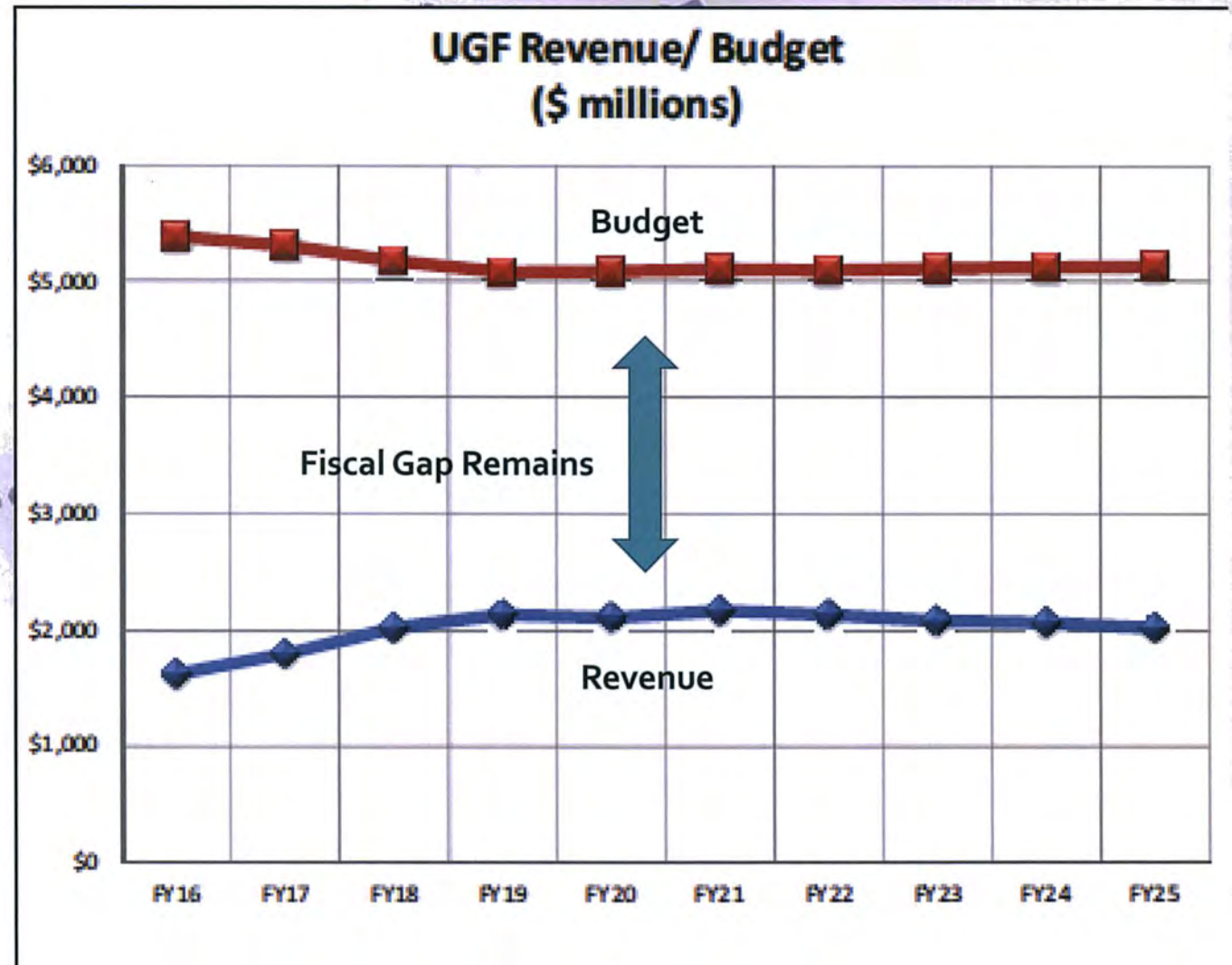
- Denial
- Anger
- Bargaining
- Depression
- Acceptance





What is the cost of doing nothing?

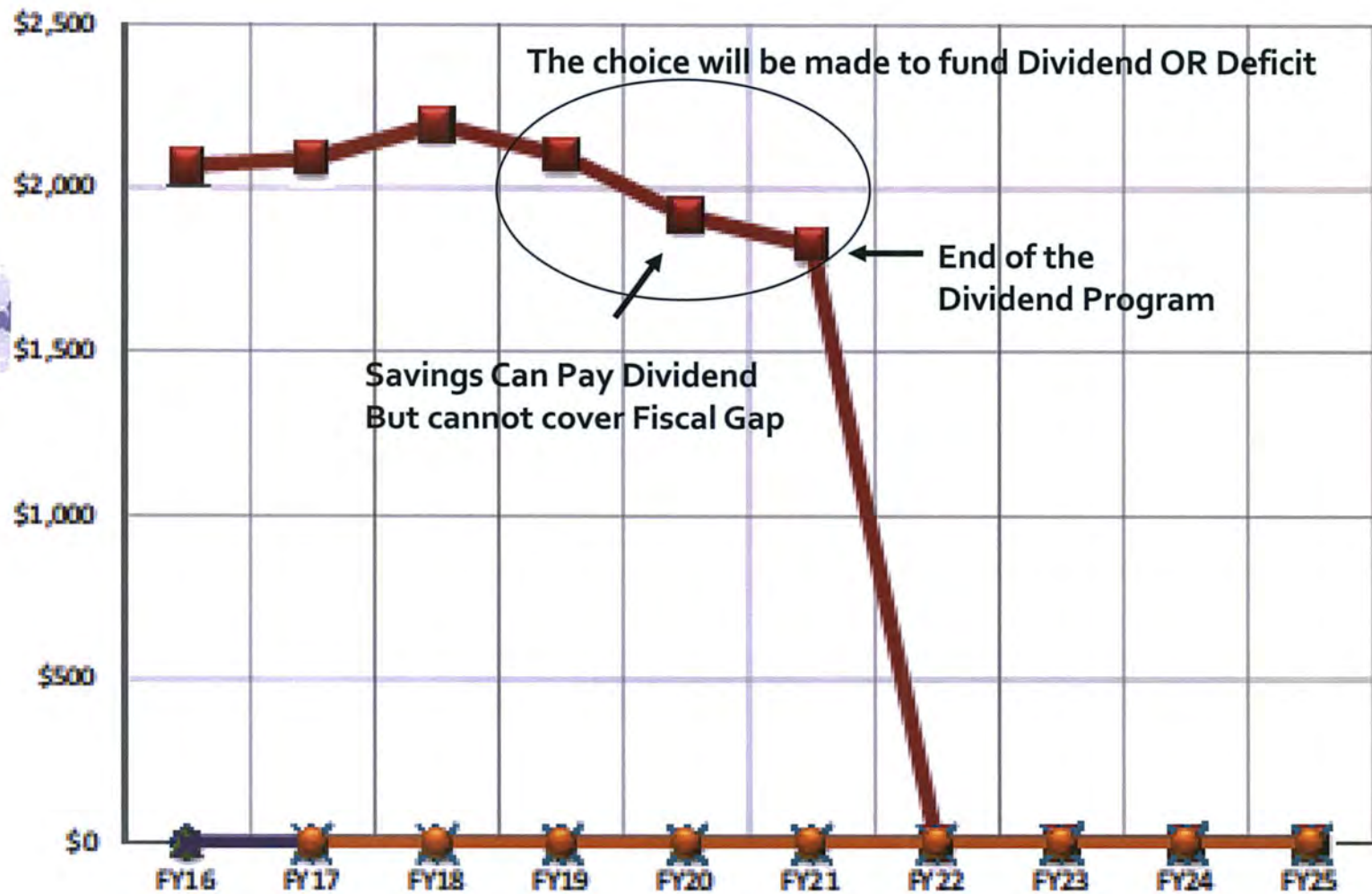
Status Quo



Status Quo



Dividend Check



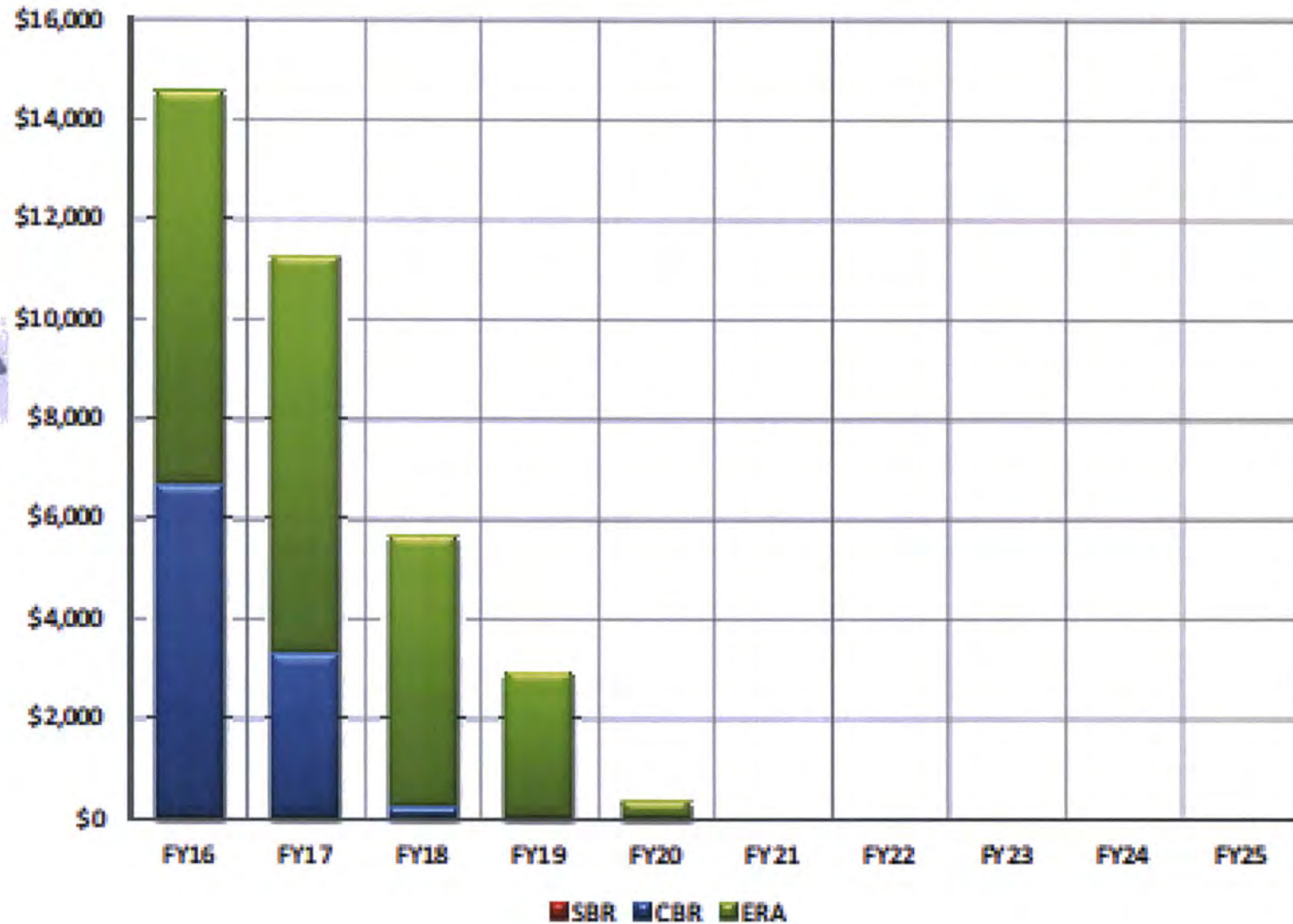
Status Quo

When the CBR is gone
The ERA will be required

When the ERA is gone....

What do we draw from then?

Budget Reserves



A Path Forward

We need a plan to address the problem

"If I had one hour to solve a problem, I would spend 55 minutes thinking about the problem and 5 minutes thinking about the solution."

- Albert Einstein

In crafting SB114 I had these principles in mind:

The solution needed to:

- 1) Retain a dividend
- 2) Reduce the volatility in the state budget
- 3) To clearly expose the size and cost of government
 - so that downward pressure would ensure that Alaskans could begin an honest assessment of needs vs. wants
- 4) Be enduring to allow maximum use of our wealth over generations so that benefits and burdens are shared
- 5) Be Simple and Easy to implement

What SB 114 IS NOT

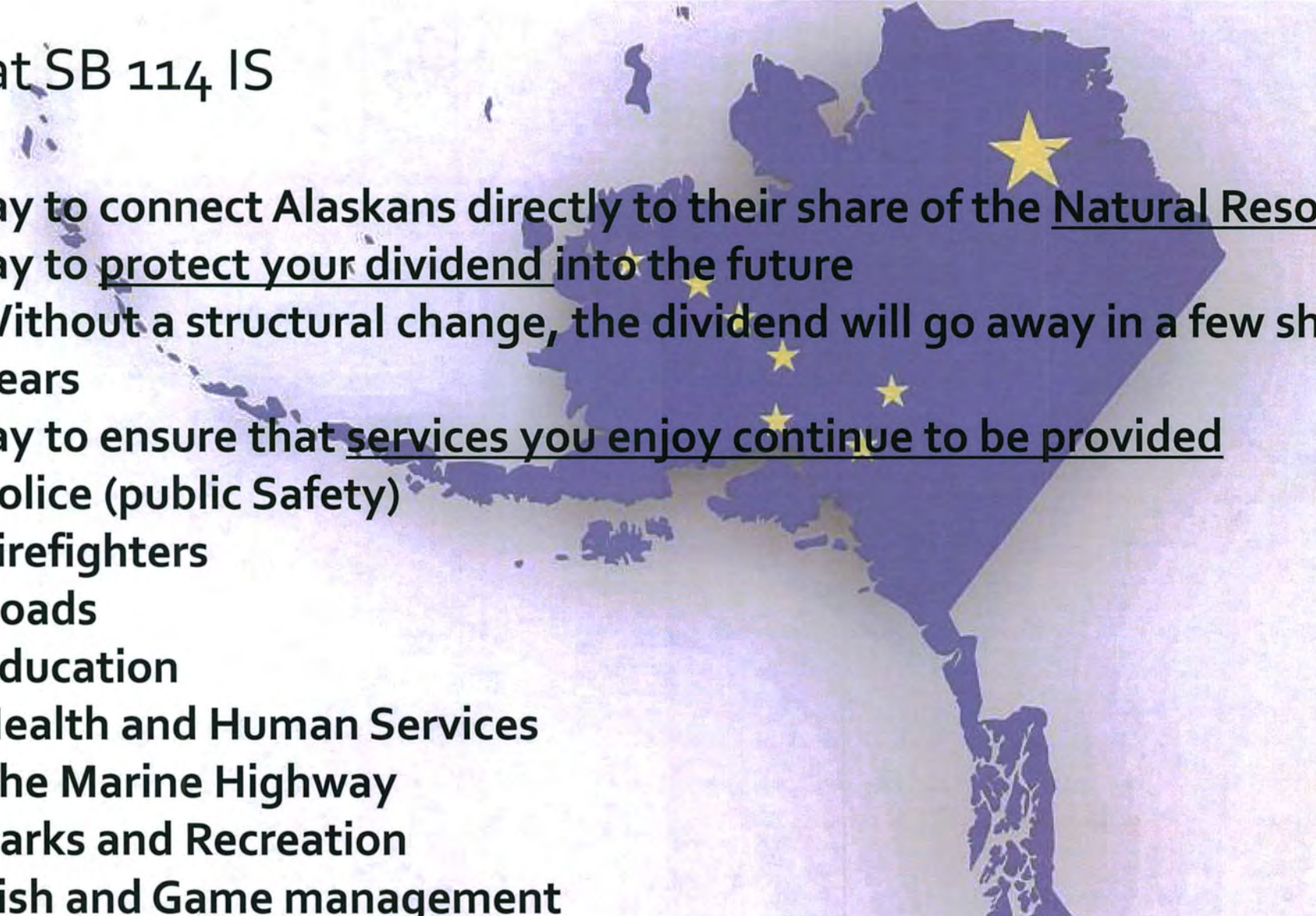
It is NOT

- A Raid on the Permanent Fund
 - The Permanent Fund cannot be touched without a constitutional amendment
 - SB114 would only draw funds from the Earnings Reserve Account
- A way for Government to increase the Budget
- A Dividend Killer

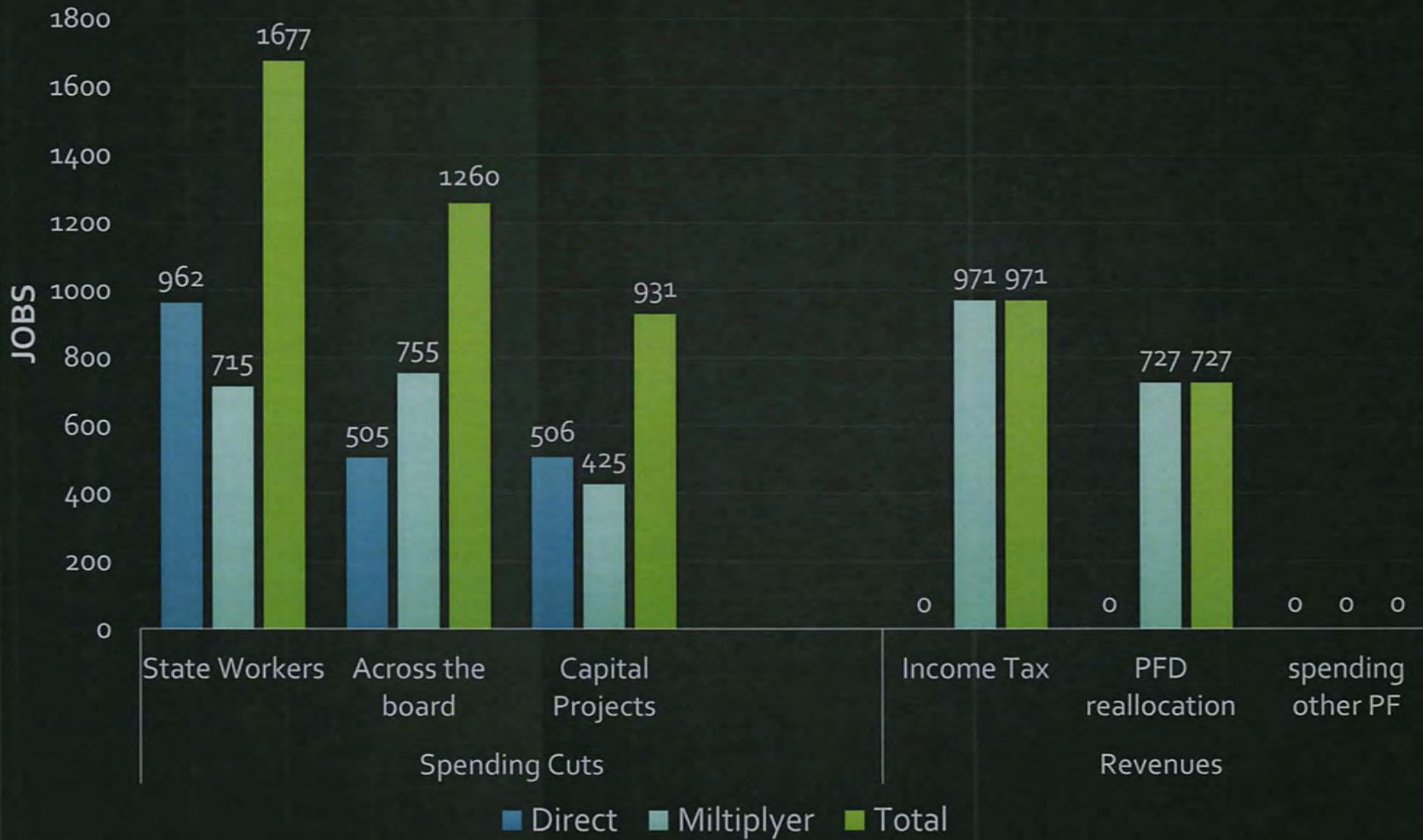


What SB 114 IS

It IS

- A way to connect Alaskans directly to their share of the Natural Resources
 - A way to protect your dividend into the future
 - Without a structural change, the dividend will go away in a few short years
 - A way to ensure that services you enjoy continue to be provided
 - Police (public Safety)
 - Firefighters
 - Roads
 - Education
 - Health and Human Services
 - The Marine Highway
 - Parks and Recreation
 - Fish and Game management
- 

Impacts of Selected Options for Reducing the Deficit by \$100Million Job Loss



Source:
 Mouhcine Guettabi
 And Gunnar Knapp
Alaska Business
 Monthly 2016

A map of Alaska is shown in a light blue color. Several yellow stars are placed on the map, primarily in the central and eastern regions. The text is overlaid on the map.

SB114 Spending Limitations? Volatility in Commodity Prices

- **Without Oil Tax Revenue flowing through the ERA**
 - **Available General Funds will continue to swing with commodity price**
 - **Some volatility will remain**

Unless limitations are put in place

There are many options



SB114 Spending Limitations? Volatility in Commodity Prices

- The Legislature *could* consider some of the following to reduce volatility:
 - Language that says “FY(x) appropriation cannot exceed 110% or 120% of previous years draw” – can pick a number.
 - POMV could be 3%-8% depending on returns, oil tax revenue, cash flow needs, capital project outlays, etc...
 - Can create an overall spending cap

A \$3.5-4 Billion Deficit- volatility in Commodity Prices

We have seen this before

For decades

Oil Price x Volume = State Budget

This has been Volatile and Unstable

We have been saved in the past by rebounding oil prices

What is different today is:

We no longer have the volume

(oil would need to be over \$108bbl to balance the budget)

Einstein said "We cannot solve our problems with the same level of thinking that created them."

A \$3.5-4 Billion Deficit

Some things we Must ask ourselves:

(oil would need to be over \$108/bbl to balance the budget)

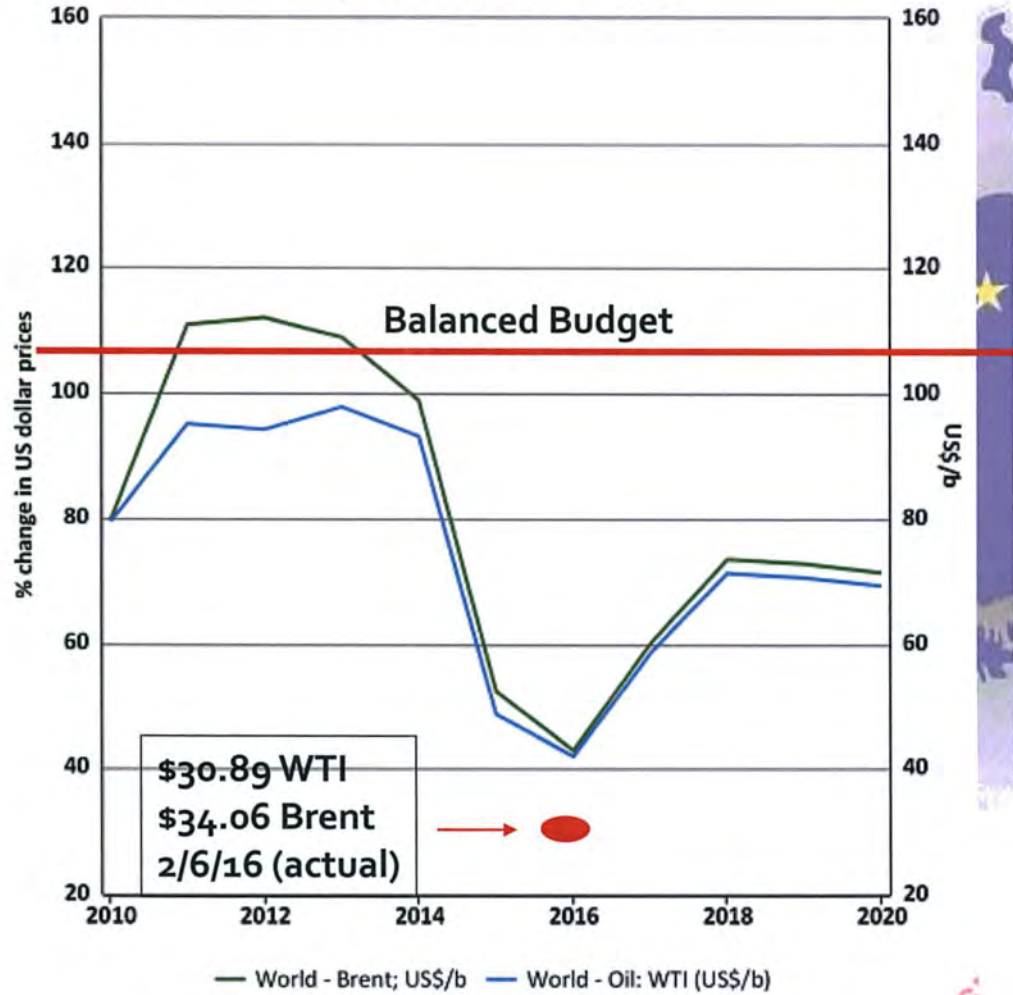
Will Oil Prices Rebound?

How high?

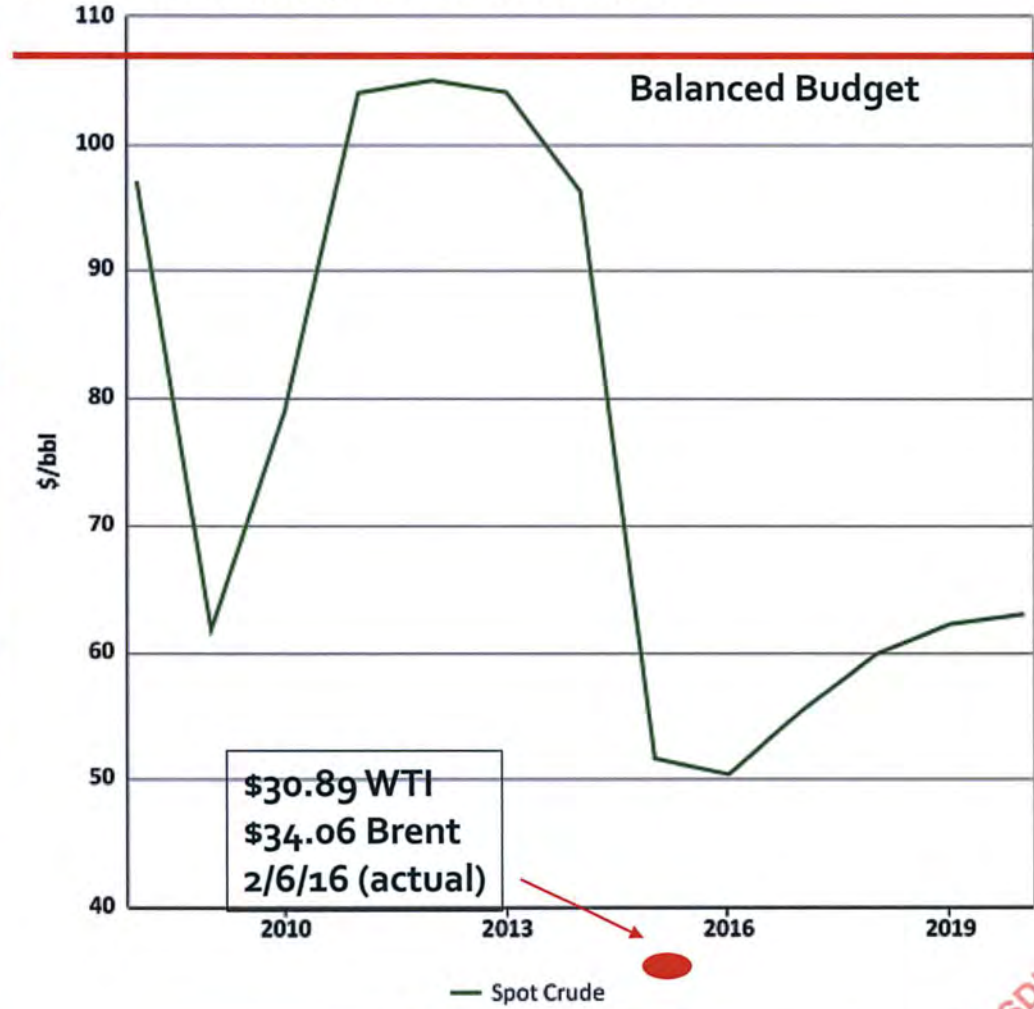
When?

Einstein said "We cannot solve our problems with the same level of thinking that created them."

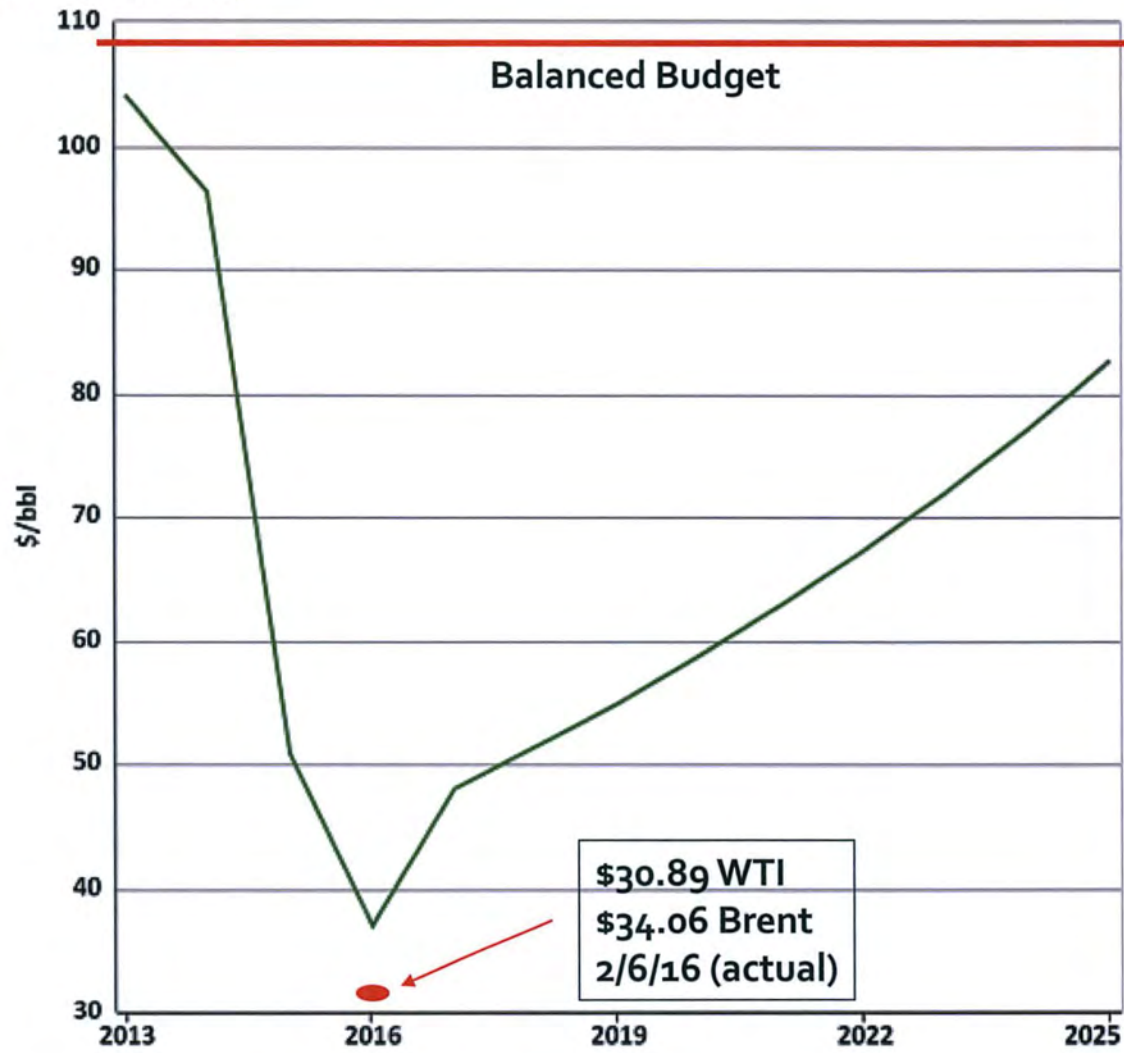
EIU Economic and Commodity Forecast, December 2015



Medium Term Commodity Price Baseline - U.S. Dollars



Nominal US Dollars

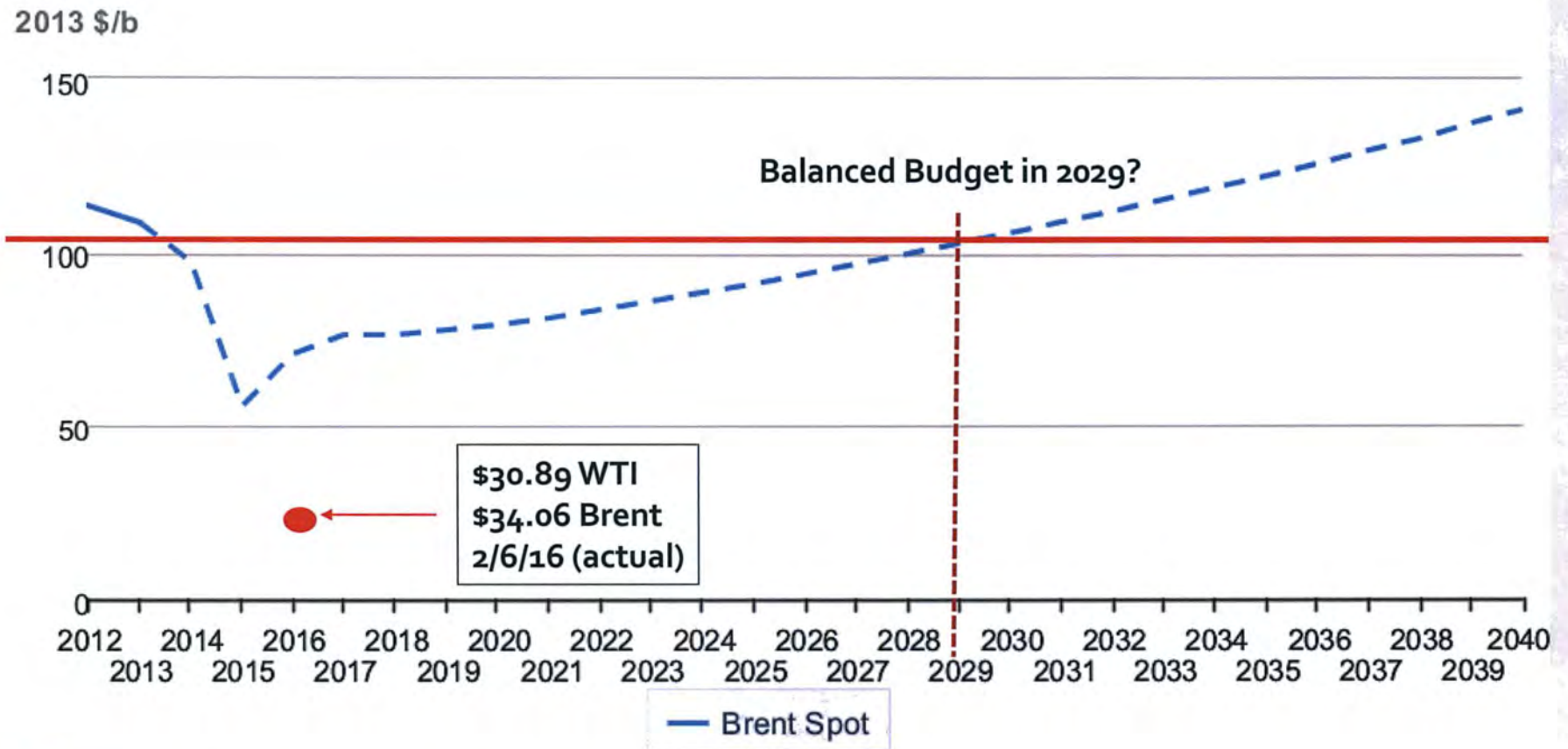


World Bank — Crude oil, avg, spot

SDK

Real Petroleum Prices: Crude Oil

Case: Reference case



A \$3.5-4 Billion Deficit

A world map with a yellow star over the Middle East region. The map is light blue and white, with the star positioned over the Persian Gulf area.

- Oil Price Projections have been inaccurate
- Is the International Oil Market fundamentally different now?
 - Perhaps
- *Should we bet on oil prices to save us in the future?*
 - A better question:

Should we bet our future on oil prices?

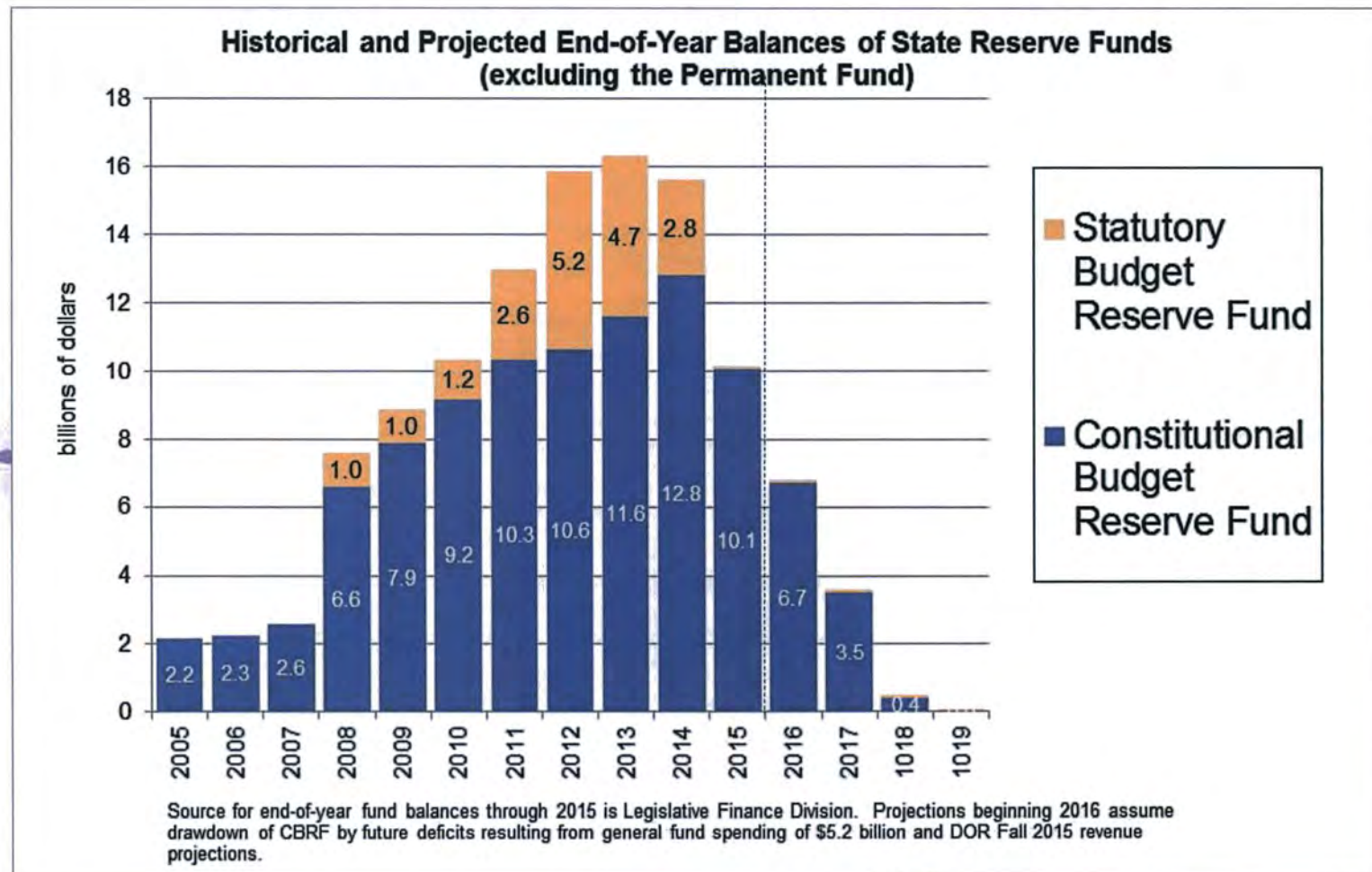
A \$3.5-4 Billion Deficit

- What has been done with savings at high oil prices?
- Snapshot of the Present
- Looking forward

The Legislature did a GREAT job saving during high oil Prices

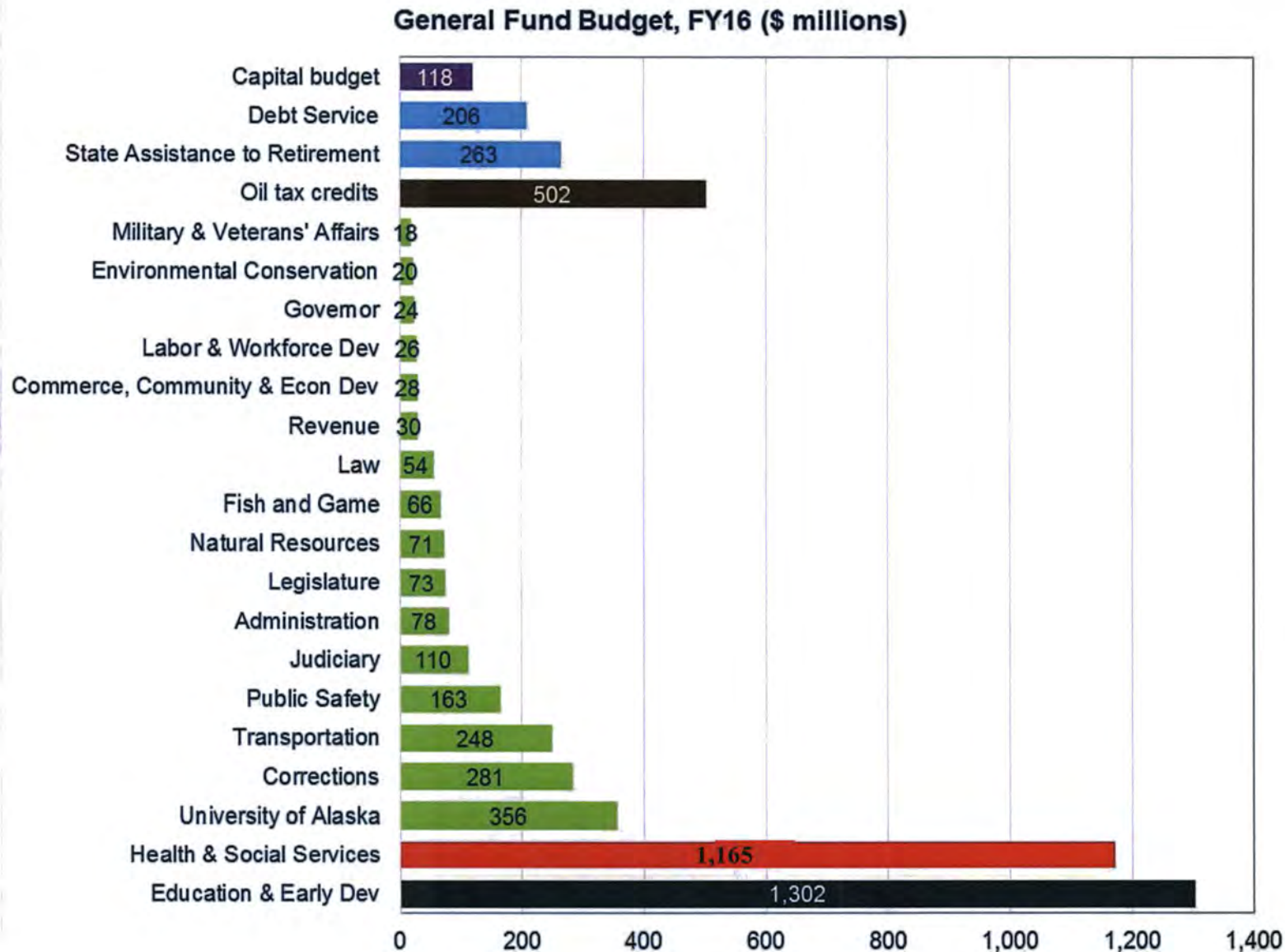
But

Savings have been depleted



- 2008-09: Record high oil prices under ACES
- 2013: Low price and low volume- began draw down of SBR
- 2018: We cannot pay our bills with savings

- How we are spending \$5.2 billion in FY16
- There are still cuts we can make
- But the low-hanging fruit may be gone
- These outlays do not capture program receipts or federal matches
 - Which would be vulnerable with deep cuts



Potential New Revenue From Sustainable Alaska Plan

There are several new revenue options
But even together they do not close the gap

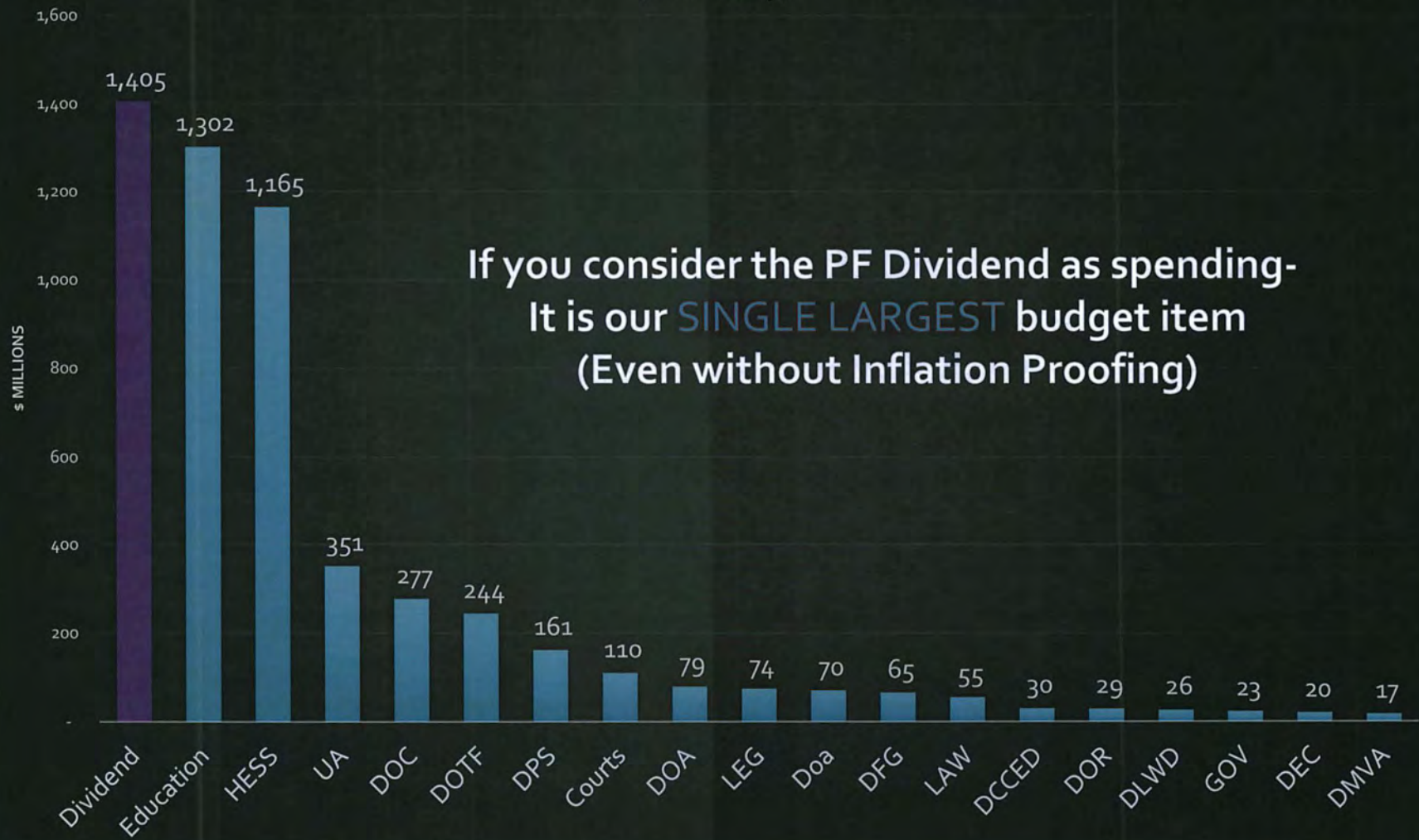




**We cannot close the gap with cuts or new broad-based revenue
ALONE**

**A sound fiscal solution will necessarily involve using the Permanent
Fund**

FY16 Agency Shar of Total Agency Operations and the Appropriation for Permanent Fund Dividends (UGF Only)



If you consider the PF Dividend as spending-
It is our **SINGLE LARGEST** budget item
(Even without Inflation Proofing)

APFPA vs SB 114

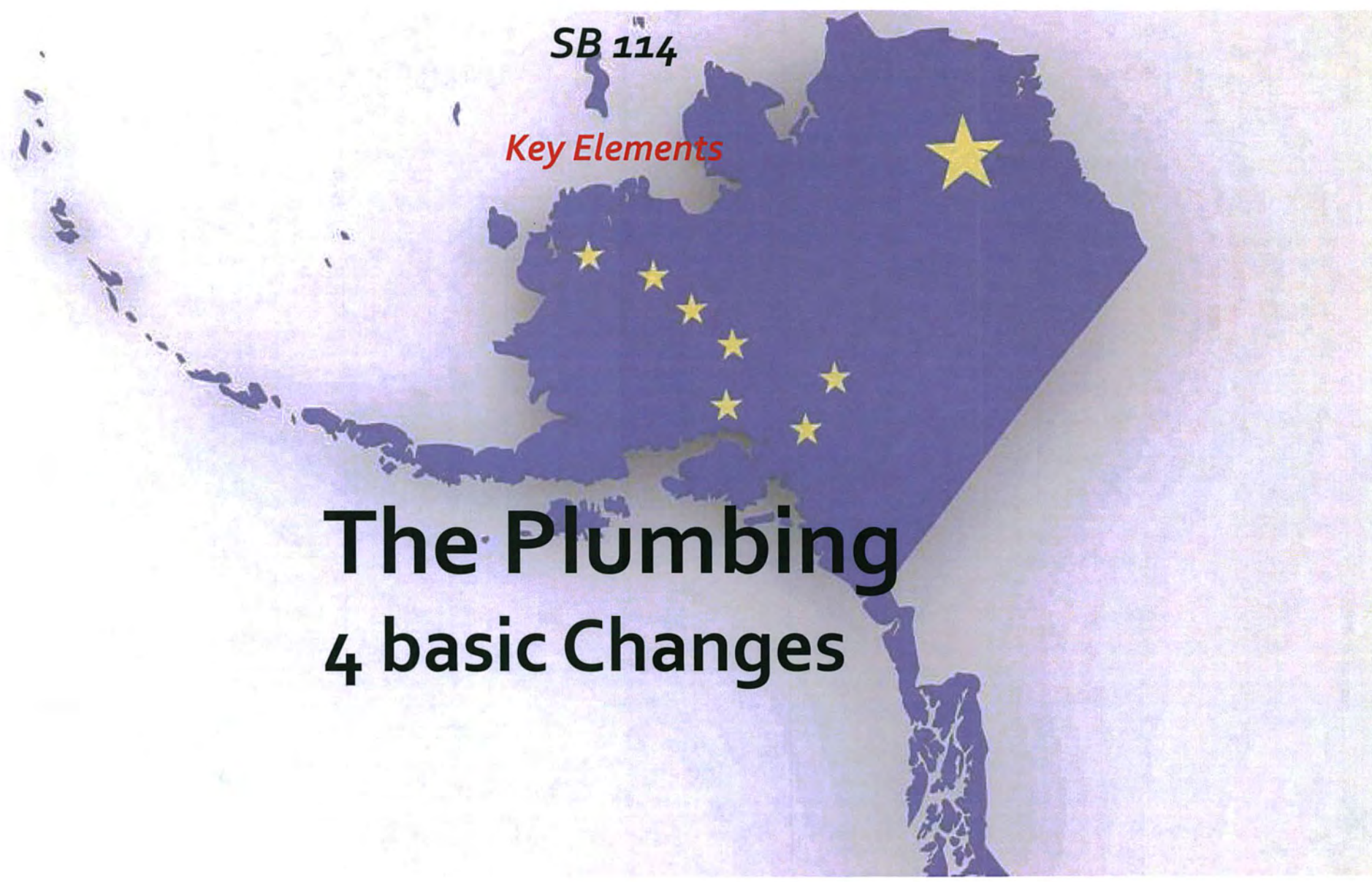
Key Elements

- **Royalties go to Dividend under both plans**
 - **PFPA = 50% of Royalties (~\$1,000 dividend and falling)**
 - **SB 114 = 74.5% of Royalties (24.5% Higher Dividend)**
- **PFPA plan moves CBR and Oil tax revenue into Earnings Reserve Account**
 - **There are possible legal issues regarding the CBR sweep**
- **PFPA plan is NOT a POMV**
 - **Targets a set number (\$3.3B) for withdrawal and spending**
 - **This is telling the legislature you have "x" amount to spend every year**
 - **Does not adjust to market returns and actual earning of the ERA**
- **SB 114 does not change oil tax revenue (still straight to GF)**
- **AFPA is designed as an annuity- looks 25 years into the future: Foresight**
- **POMV is based on actual values- Looks 5 years into the past: Hindsight**

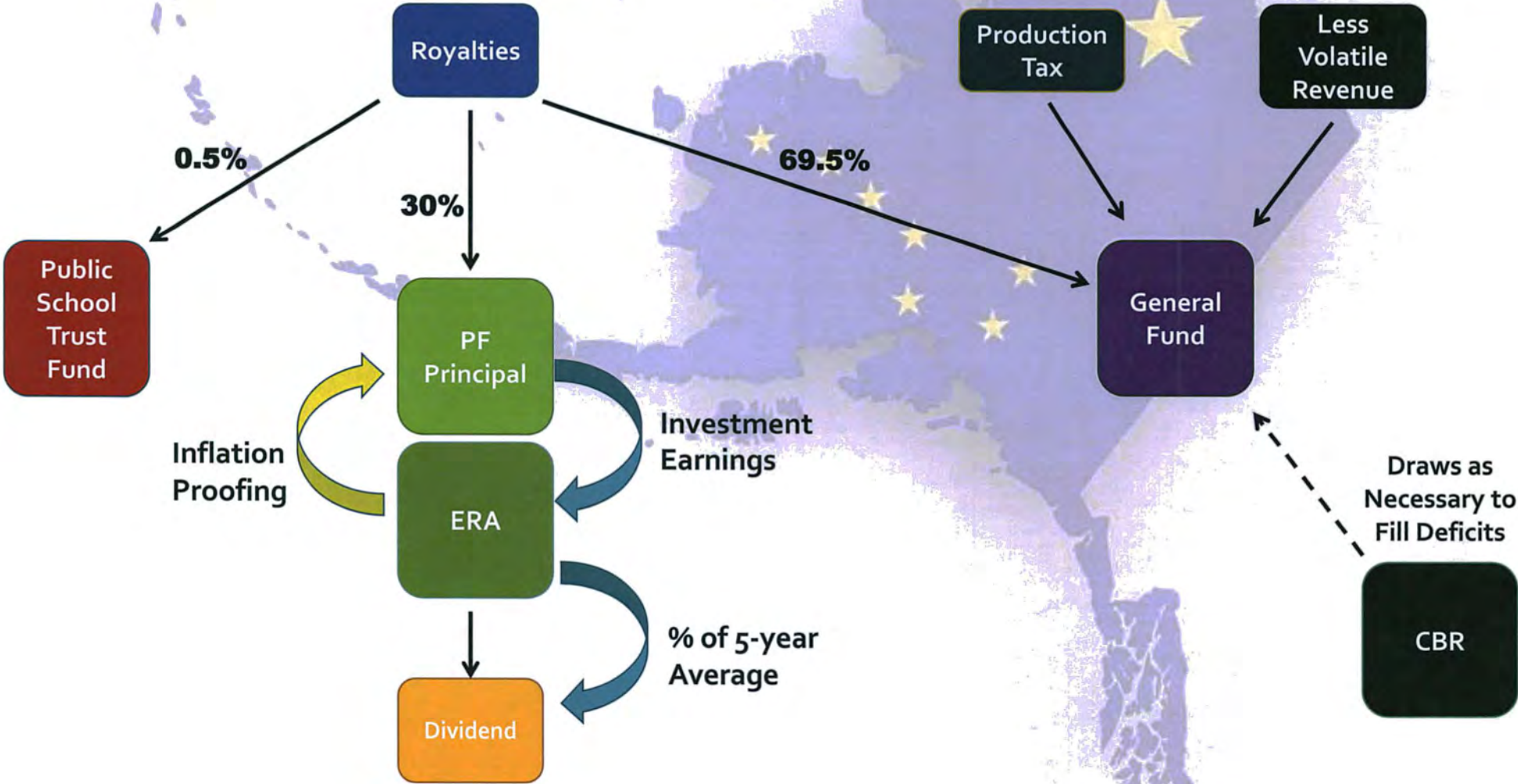
SB 114

Key Elements

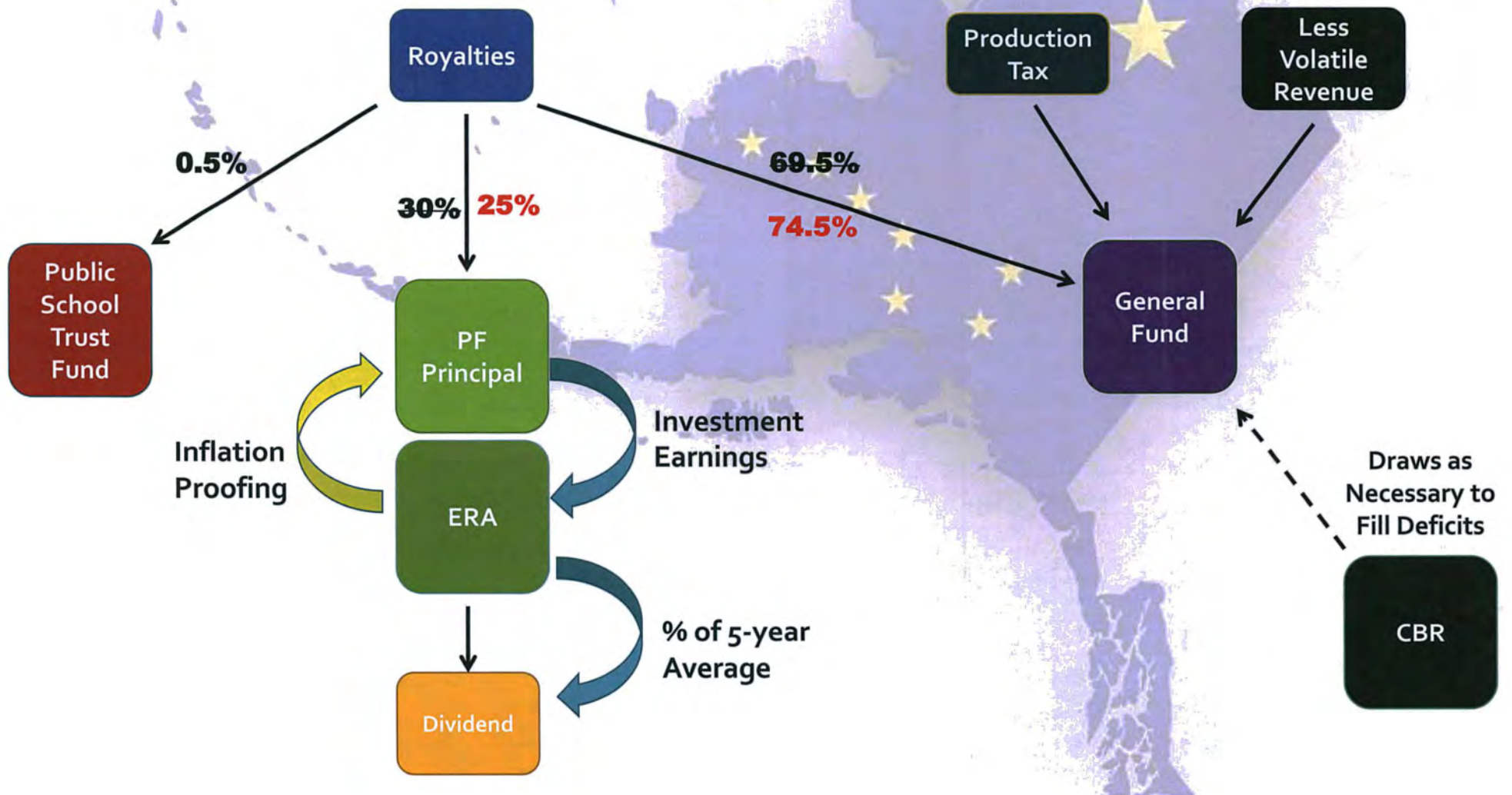
The Plumbing 4 basic Changes



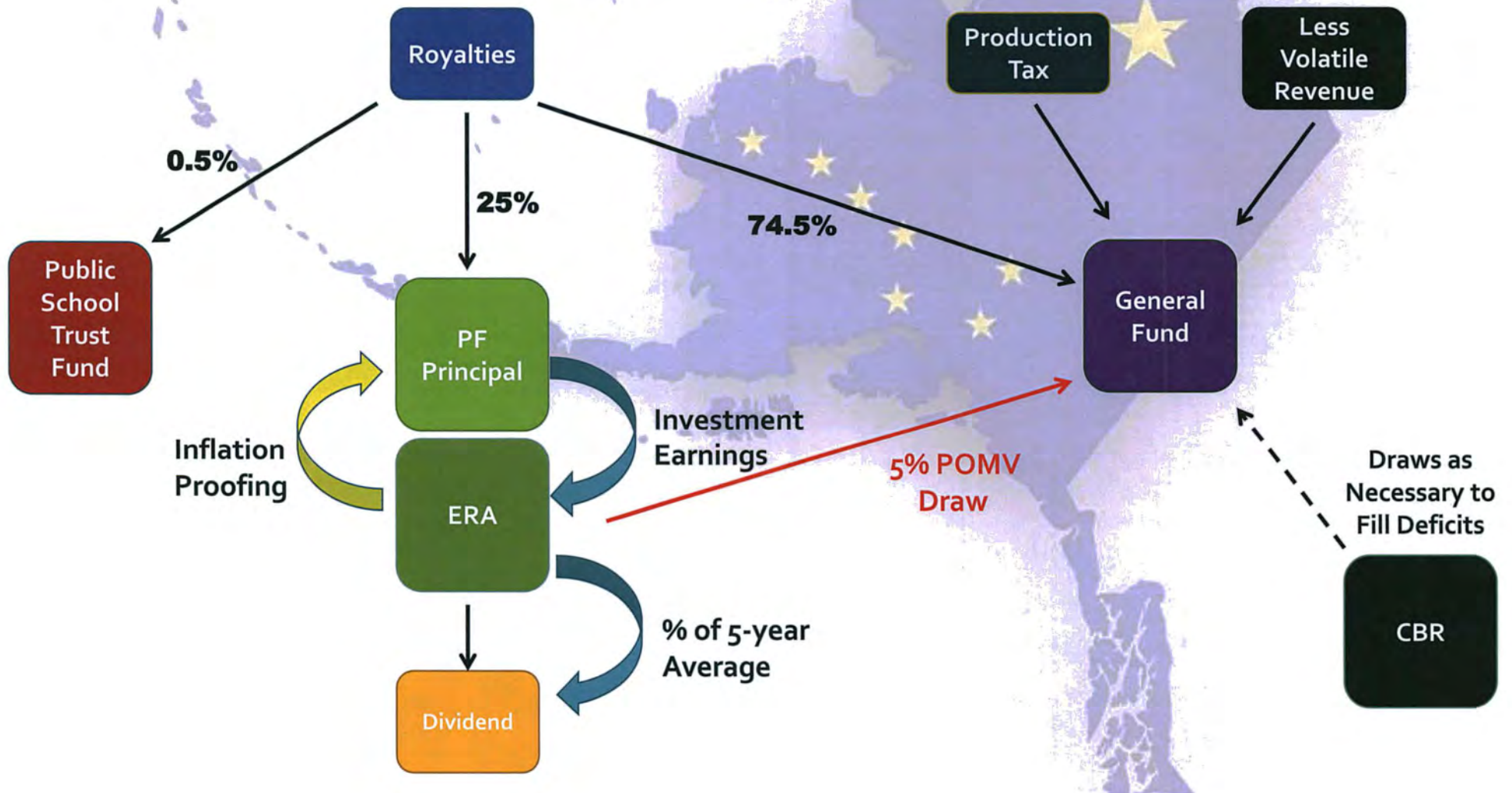
Current Cash Flow



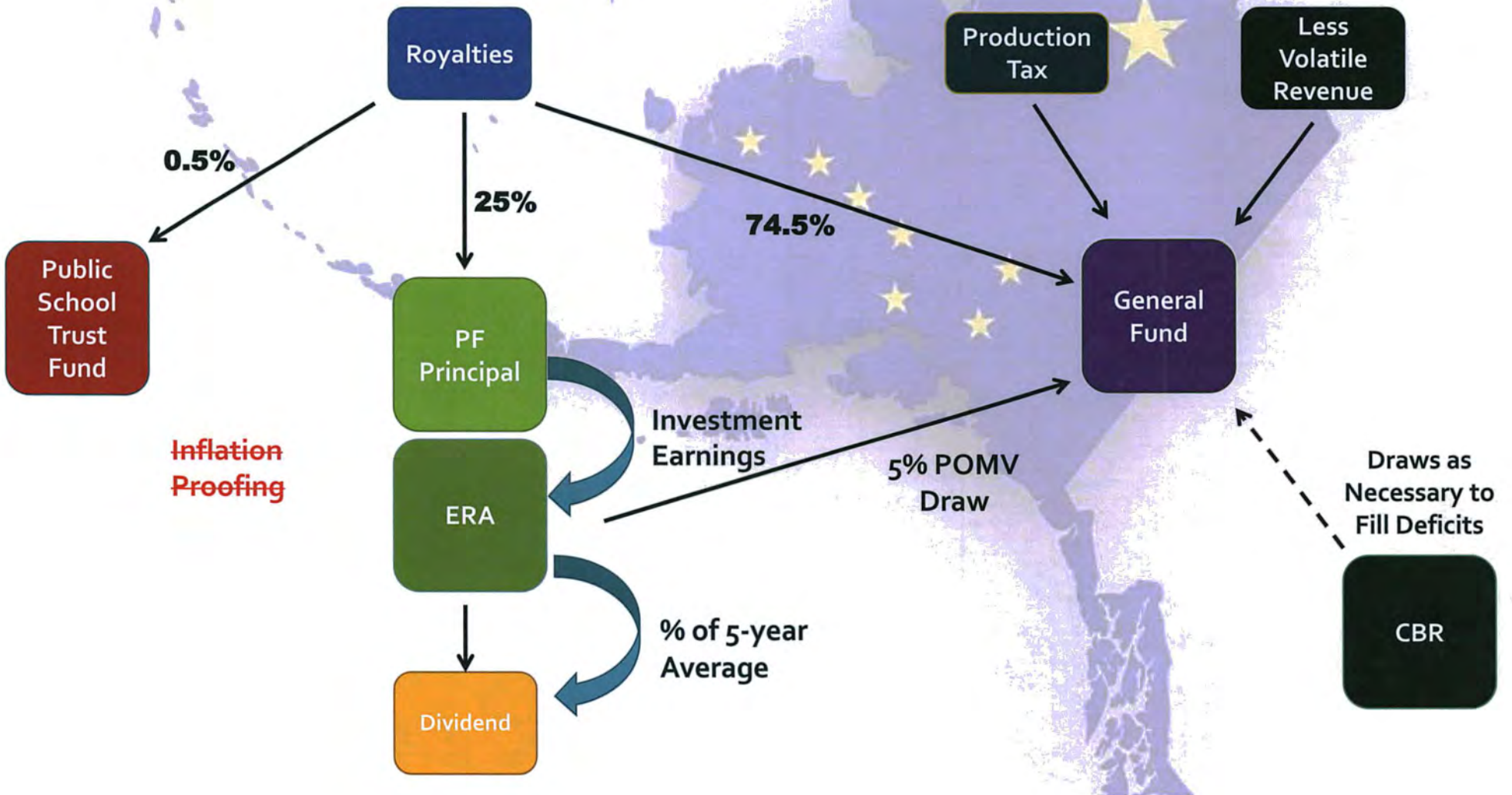
SB 114 Change 1. Royalty Percentage



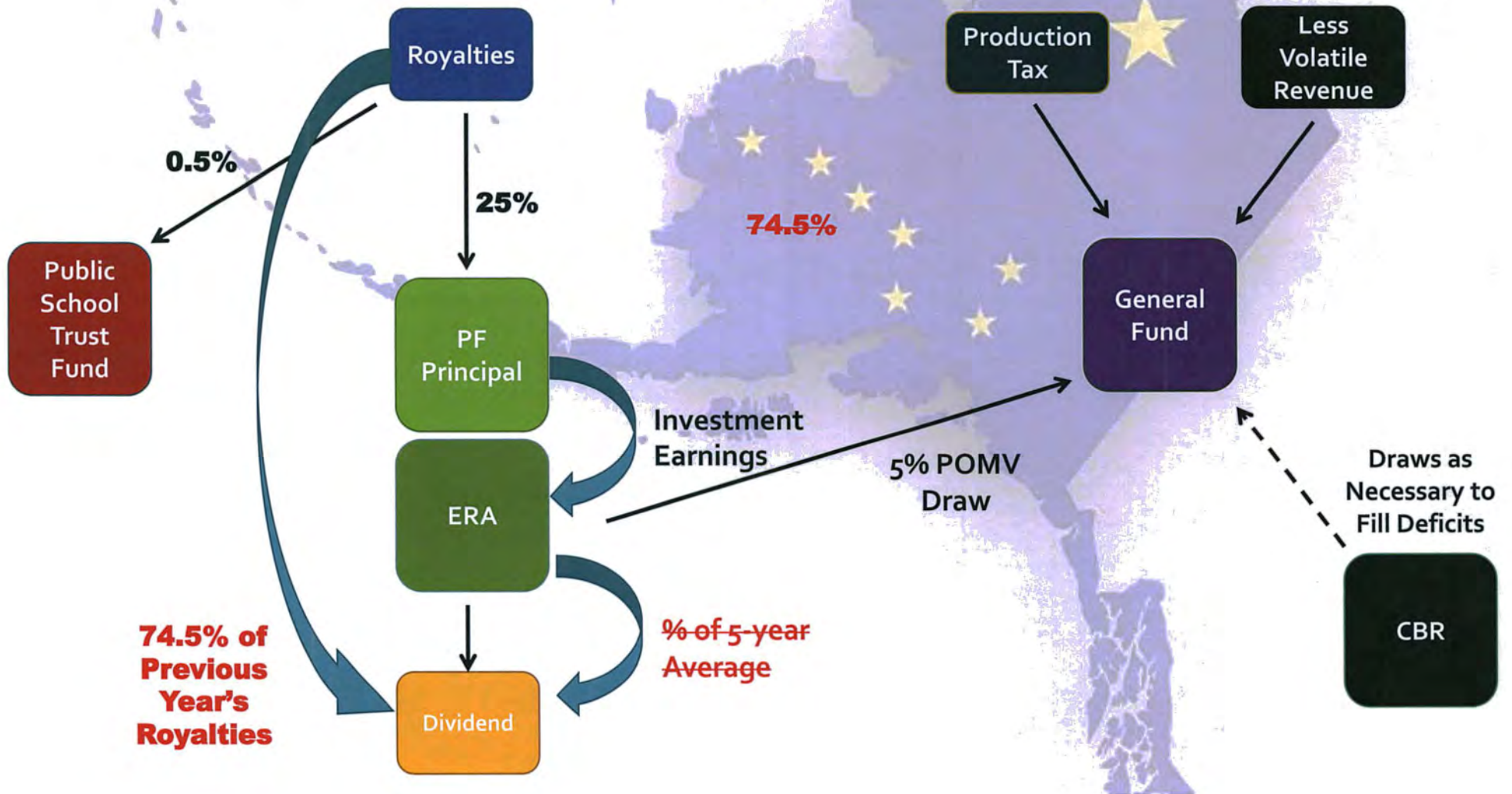
SB 114 Change 2. Add POMV Payout



SB 114 Change 3. Remove Inflation Proofing



SB 114 Change 4. Dividend Source and Calculation



SB 114: The SWAP- Rents and Royalties



- Currently,
 - 30% of all Royalties and Rents from
 - Oil, Gas and Federal Mining revenue
 - Deposited into the Permanent Fund corpus
- 0.5% to School Trust Fund
- 69.5% deposited to General Fund

SB 114: Rents and Royalties to Dividend

A map of Alaska is shown in a dark blue color. Several yellow stars are scattered across the map, with a larger yellow star in the upper right portion of the state.

- 74.5% of all R&R would be deposited into the Dividend Fund
- No Permanent Fund Earnings would be used for Dividend
- SB 114: puts a floor (guarantee) of \$1,000 Dividends

SB 114: PF Reserve Earnings Account and the General Fund



- The exchange for R&R to Dividend Fund:
 - 5% of the total value of the Permanent Fund (Corpus + ERA)
Withdrawn from ERA
Deposited into General Fund
- This is often called a Percent of Market Value (POMV) concept
- Returns on PF investments average more than 5%
 - Thus you inflation proof the PF plus the 25% R&R deposit
The PF continues to grow

SB 114: PF Reserve Earnings Account and the General Fund Inflation Proofing?



Callan's Est. Return on Permanent Fund Investments = 6.9%

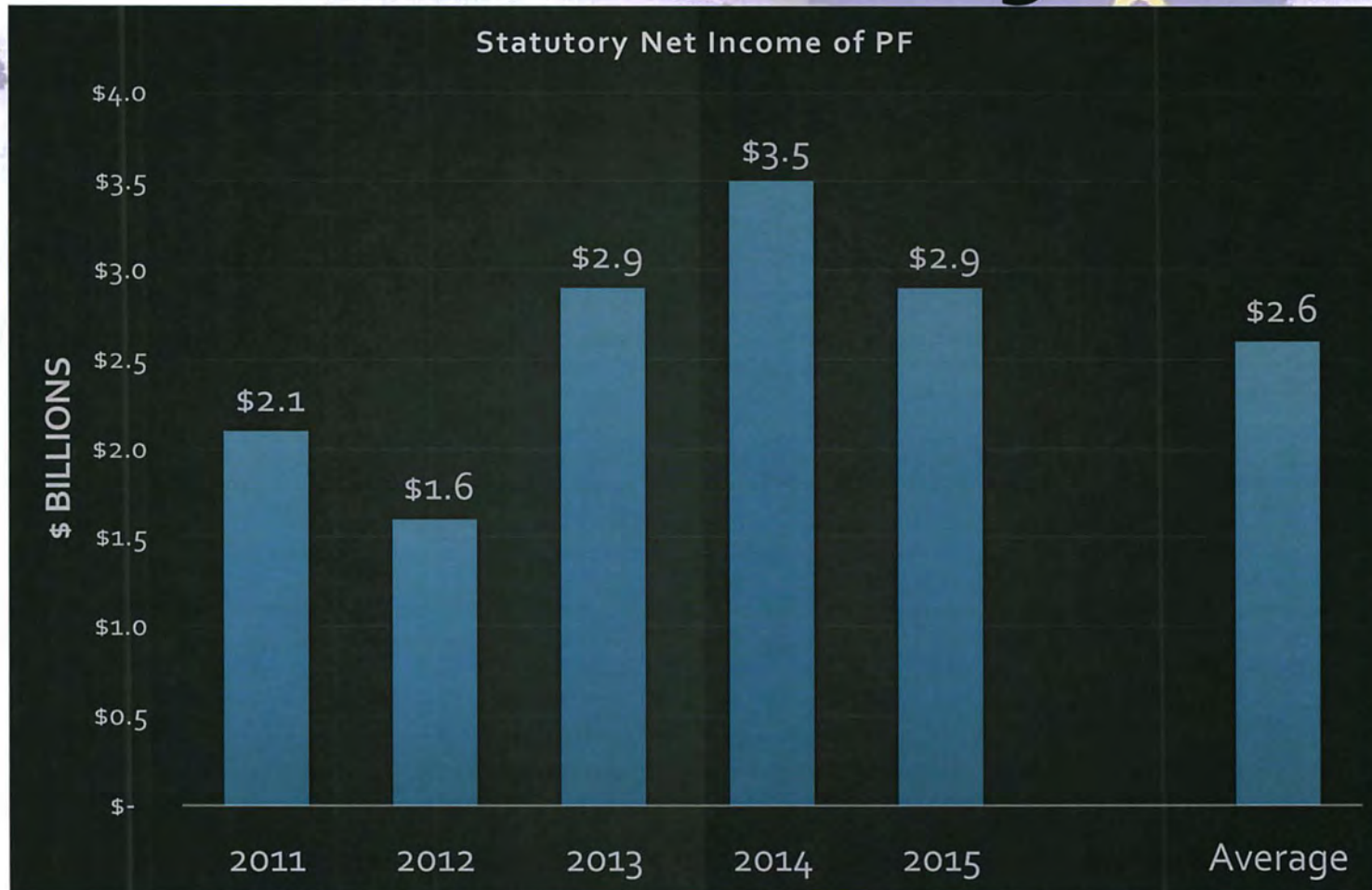
POMV Draw = 5%

To the Earnings Reserve Account = 1.9%

To the Corpus of the Permanent Fund = 25% of Royalties

Total Royalties \$961M * 25% = \$240M

SB 114: PF Reserve Earnings Account and Inflation Proofing?





SB 114: The Dividend

Two Scenarios

Currently the SS for SB 114 holds the 2016 Dividend harmless (status Quo)

This effects the amount of the POMV draw to the general fund

SB 114: The Dividend

Scenario 1

- 2016 Dividend is Held Harmless (Status Quo)
- Dividend= More than \$2,000 (total payout \$1,405 Billion)
- POMV= \$1,269.3 Billion net increase to General Fund
- This cuts the Deficit by 1/3

SB 114: The Dividend

Scenario 2

- **2016 The Royalties Swap Occurs**

- Dividend= \$1,023.74 (total payout \$715.9 Billion)
- POMV= \$1,958.4 Billion net increase to General Fund

- **This Cuts the Deficit in half**

A map of Alaska is shown in a light blue color. Overlaid on the map are several yellow stars. One large star is located in the upper right portion of the state, representing the location of the Alaska State Capitol. A series of smaller stars forms a curved path across the central and southern parts of the state, likely representing a legislative route or a specific geographic area of interest.

SB 114: Modeling

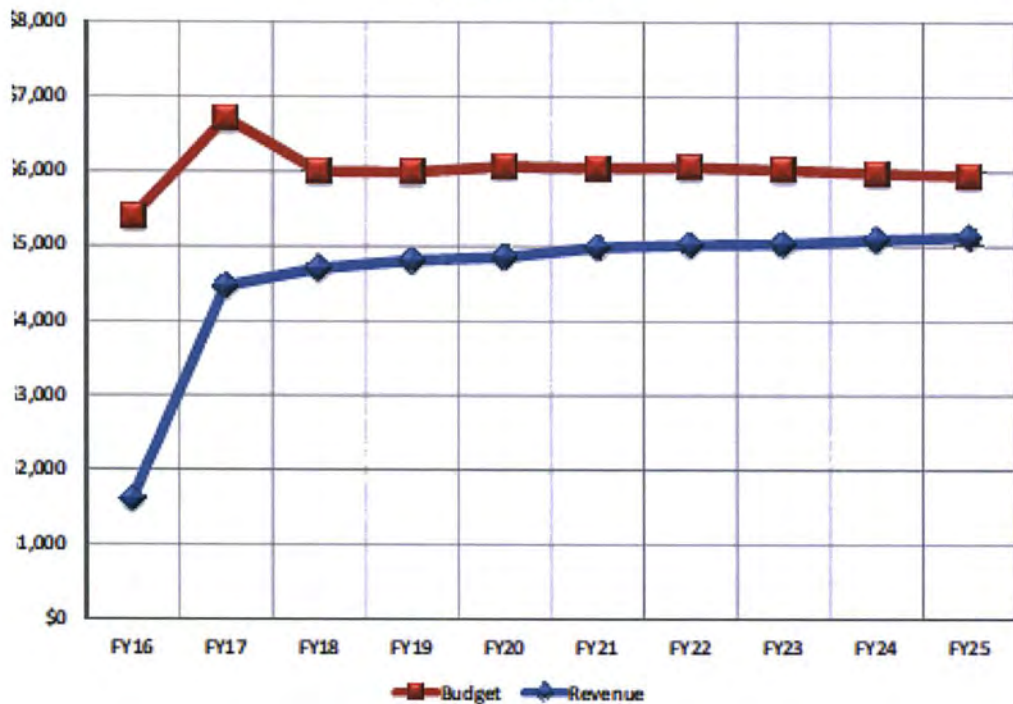
Scenario 1 (Dividend held harmless in 2016)

VS

Scenario 2 (Swap occurs in 2016)

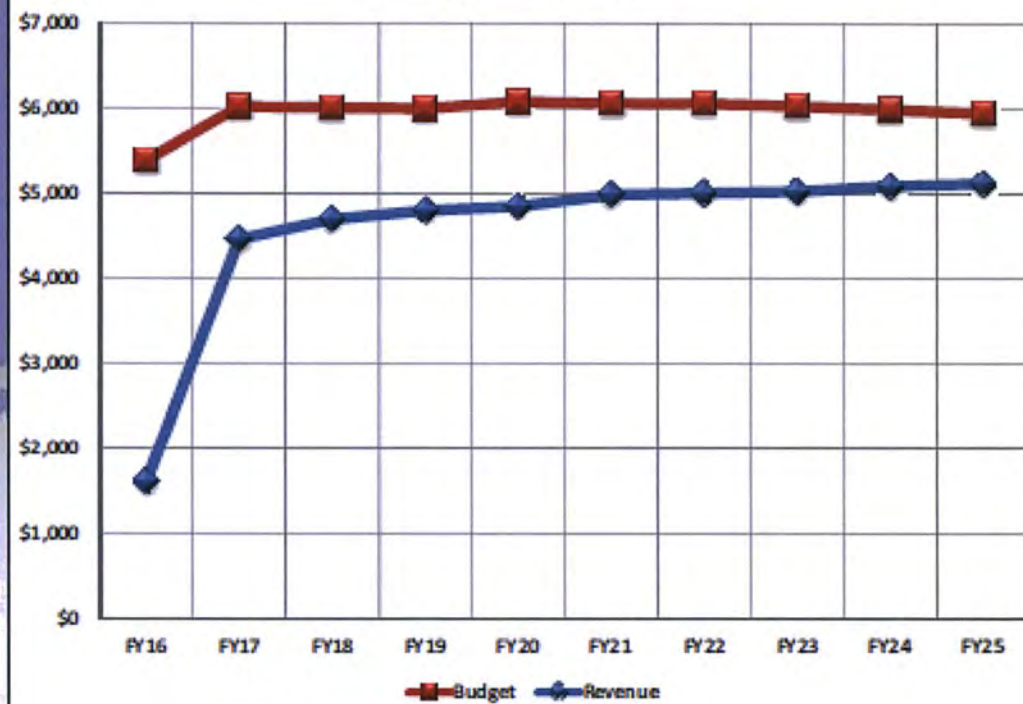
SB 114: Modeling

UGF Revenue/ Budget
(\$ millions)



Scenario 1
Dividend held harmless

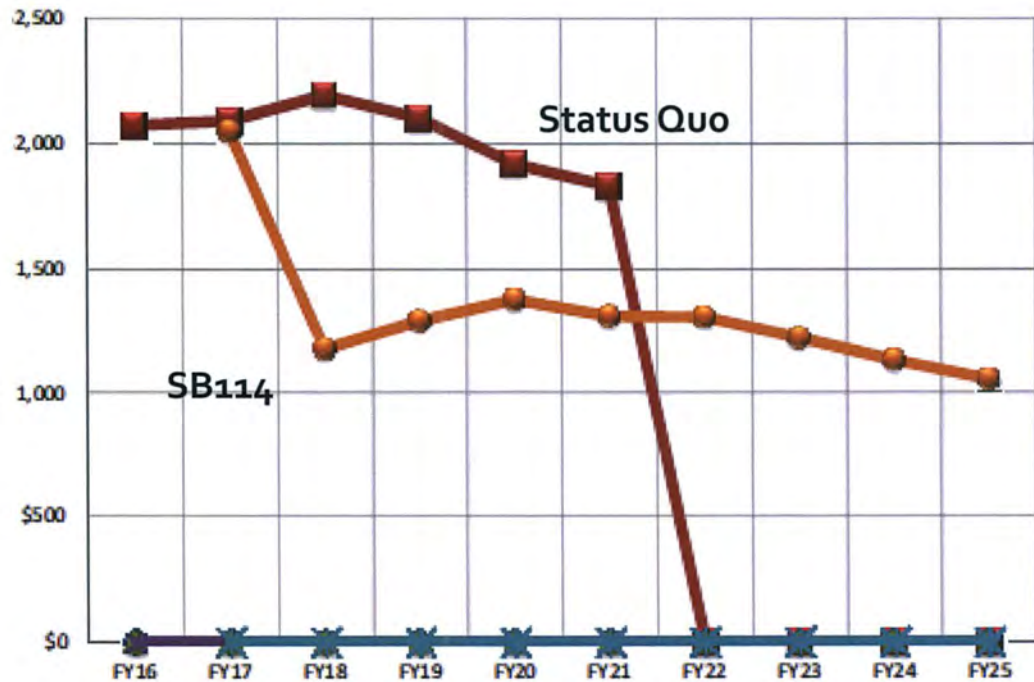
UGF Revenue/ Budget
(\$ millions)



Scenario 2
Swap occurs in 2016

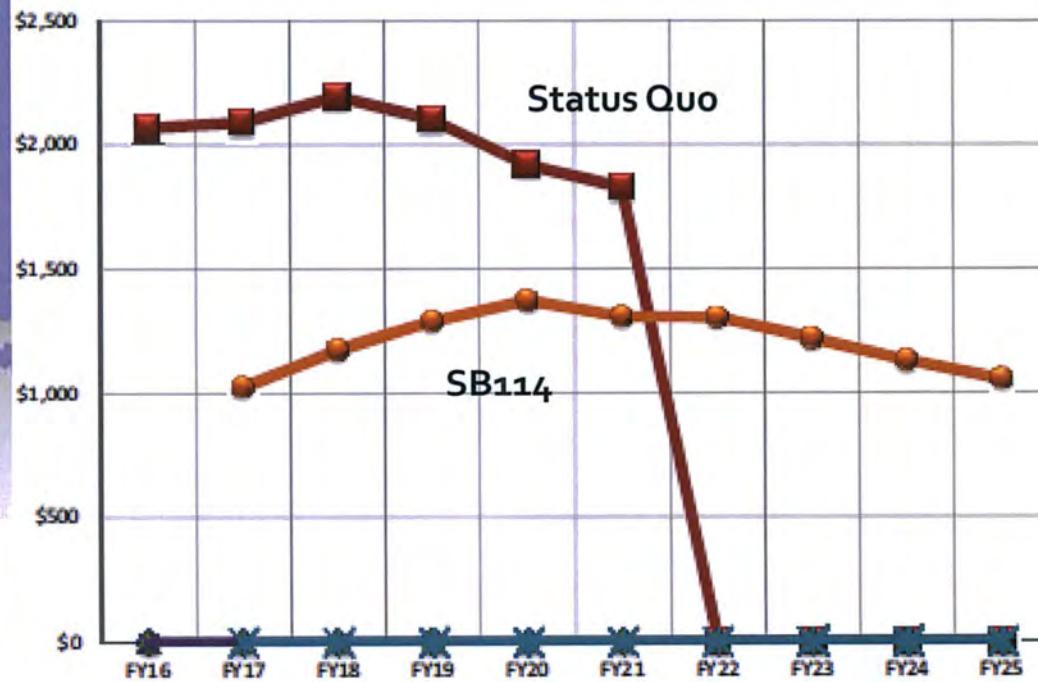
SB 114: Modeling

Dividend Check



Scenario 1
Dividend held harmless

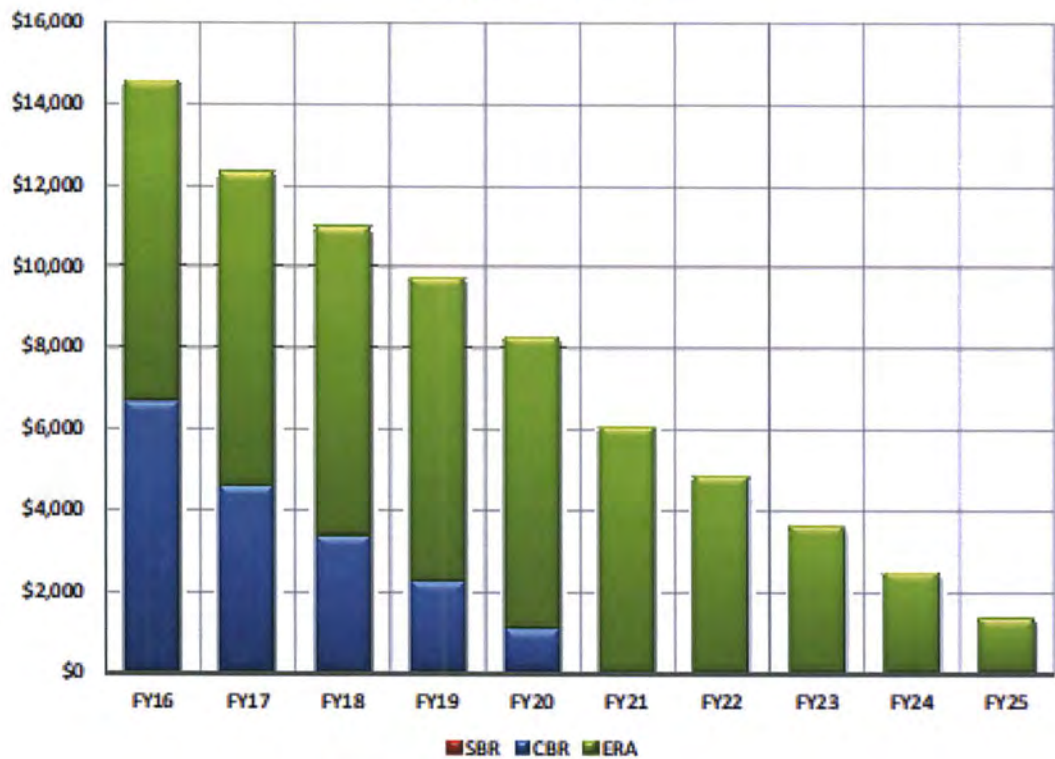
Dividend Check



Scenario 2
Swap occurs in 2016

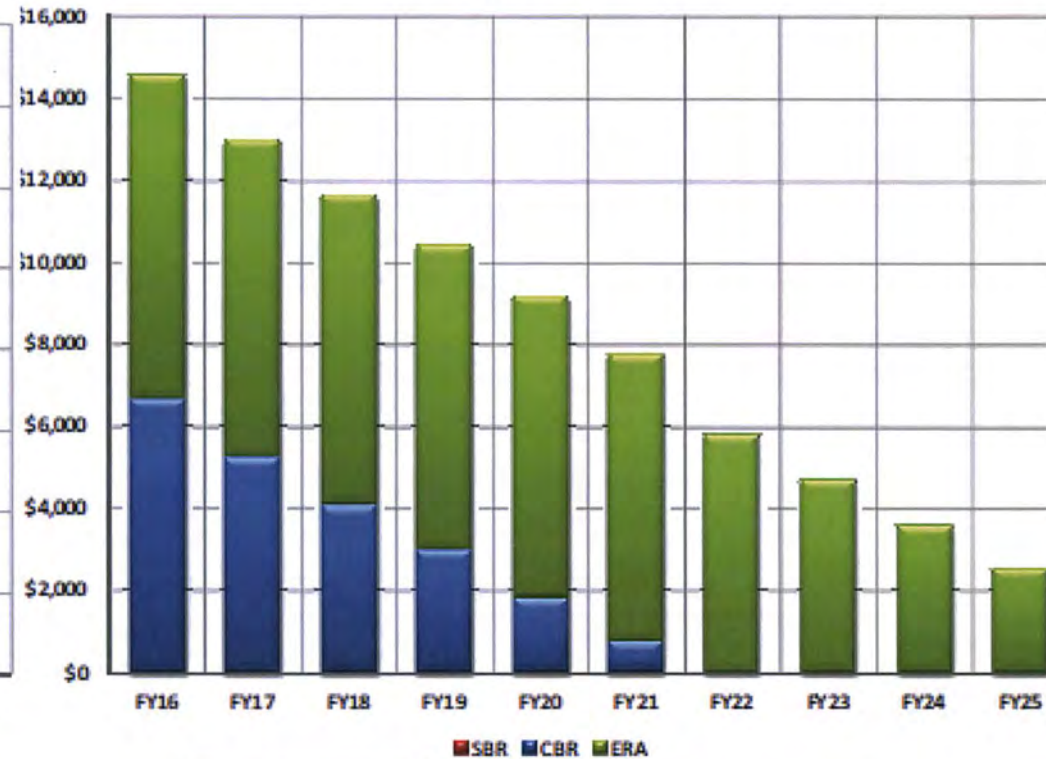
SB 114: Modeling

Budget Reserves



Scenario 1
Dividend held harmless

Budget Reserves



Scenario 2
Swap occurs in 2016

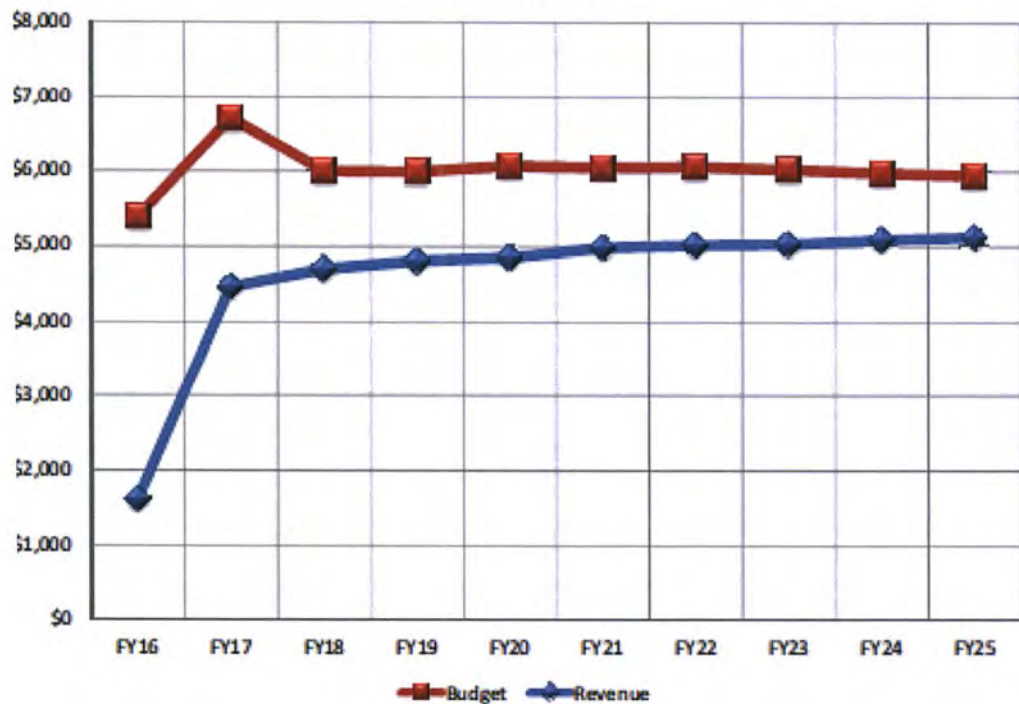
A map of Alaska is shown in a light purple color. Several yellow stars are placed on the map: one large star in the northeast, and a cluster of seven smaller stars in the central and southern regions. The text is overlaid on the map.

SB 114: Modeling
Scenario 1
Vs
Status Quo

(Dividend held harmless in 2016)

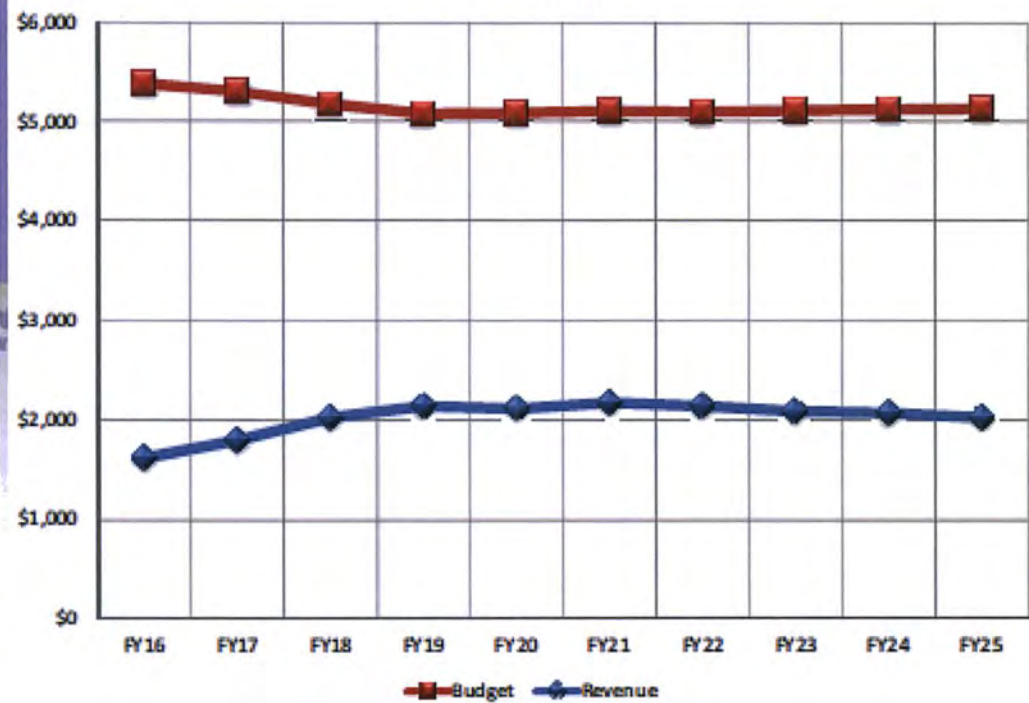
SB 114: Modeling Scenario 1

UGF Revenue/ Budget (\$ millions)



SB114

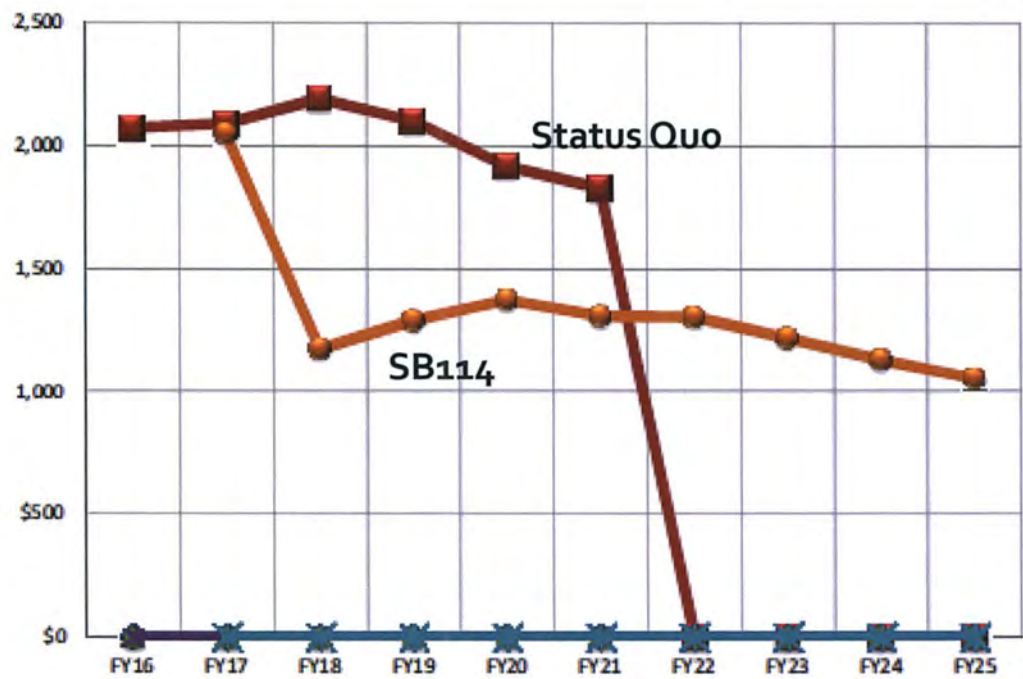
UGF Revenue/ Budget (\$ millions)



Status Quo

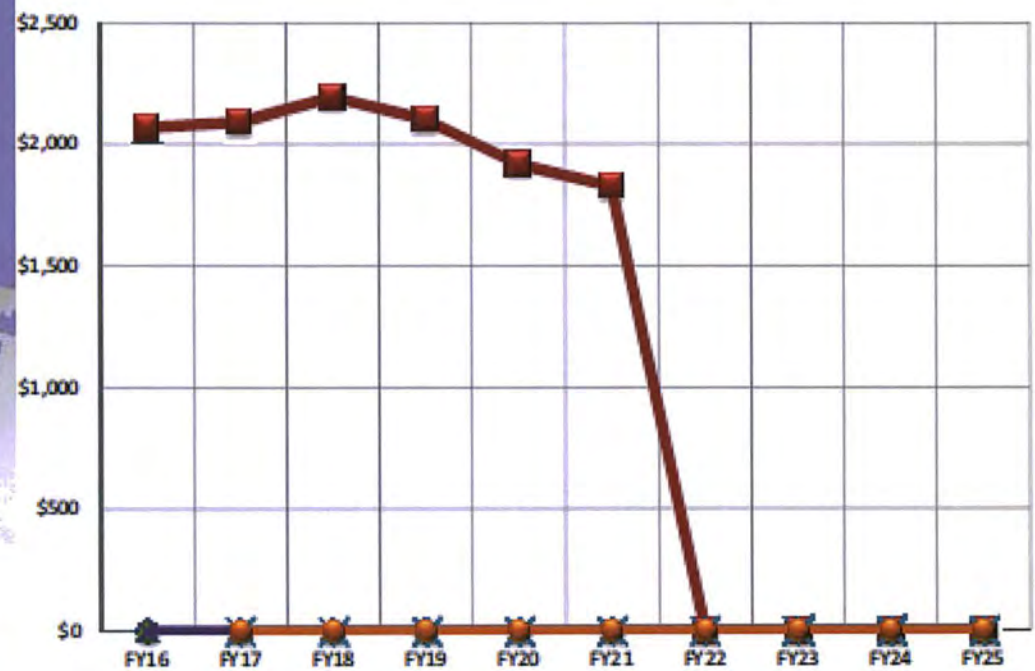
SB 114: Modeling Scenario 1

Dividend Check



SB114

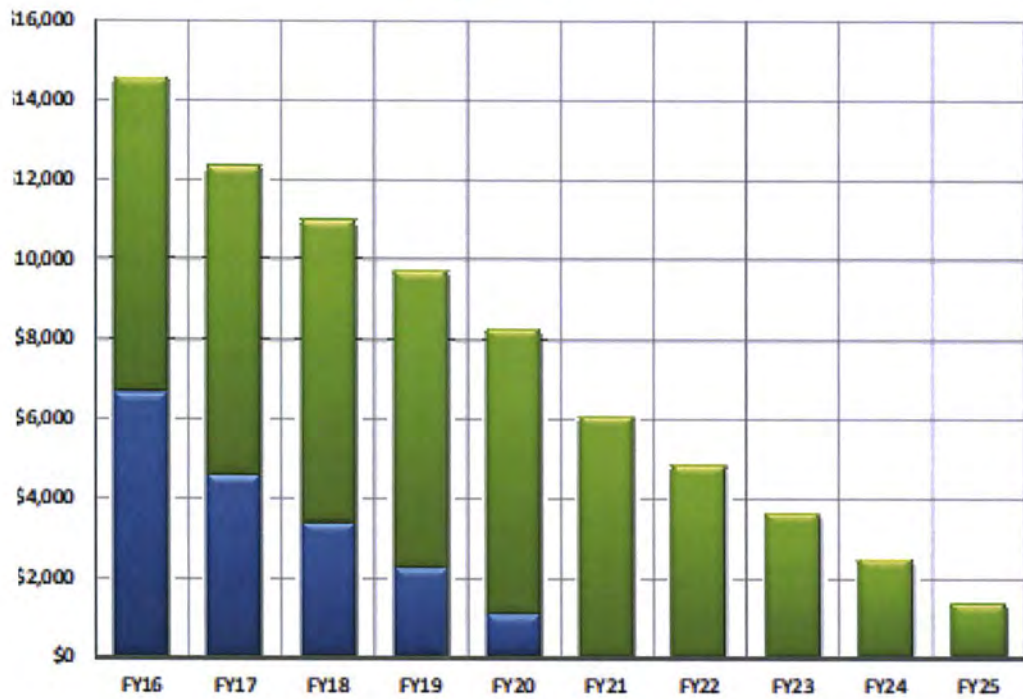
Dividend Check



Status Quo

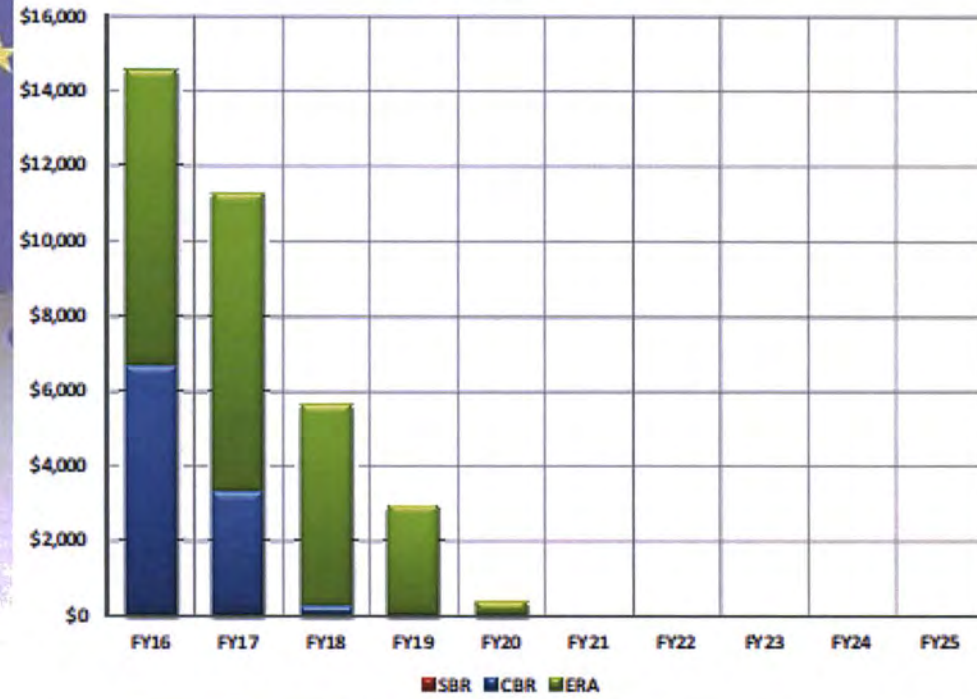
SB 114: Modeling Scenario 1

Budget Reserves



SB114

Budget Reserves



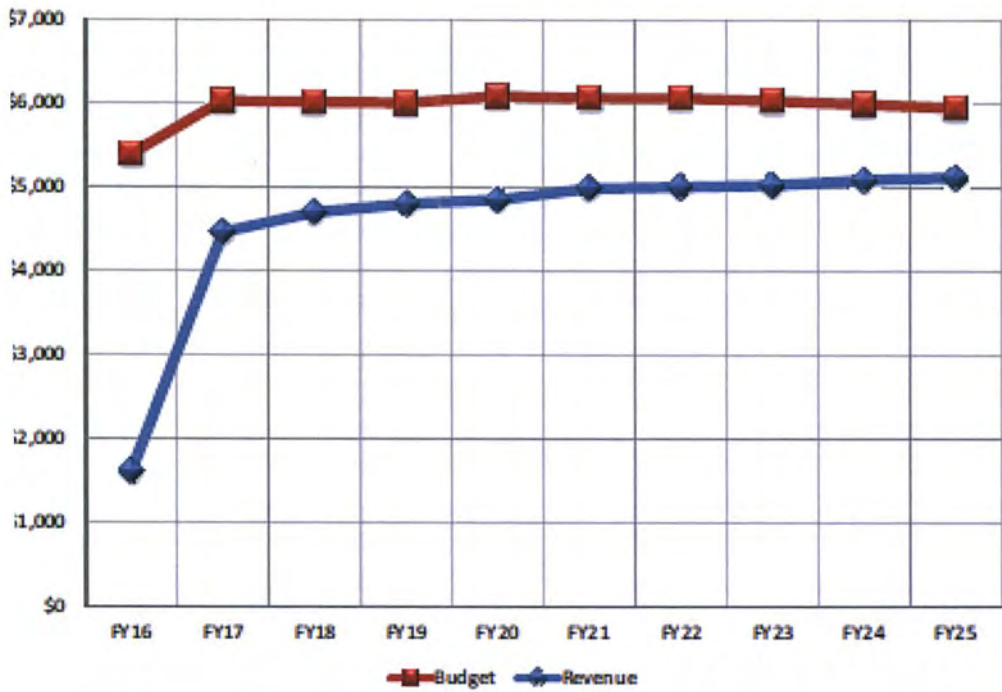
Status Quo

A map of Alaska is shown in a light purple color. Overlaid on the map are several yellow stars of varying sizes. The largest star is in the upper right corner of the state. Other stars are scattered across the interior and southern regions. The text 'SB 114: Modeling Scenario 2 VS Status Quo' is centered over the map.

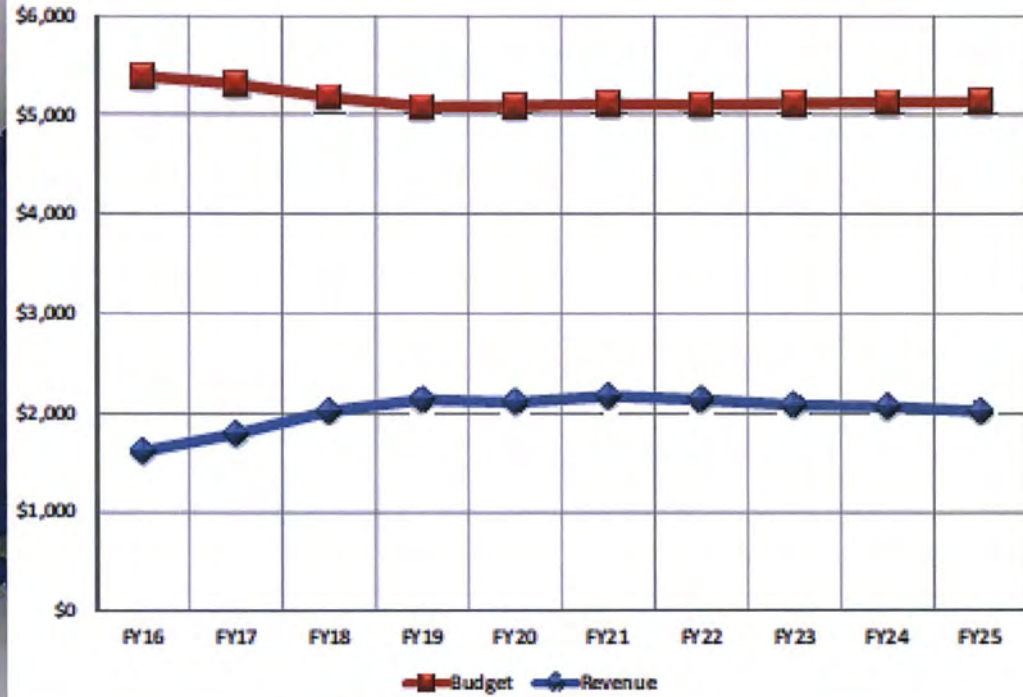
SB 114: Modeling
Scenario 2
VS
Status Quo

Dividend Swap in 2016

**UGF Revenue/ Budget
(\$ millions)**



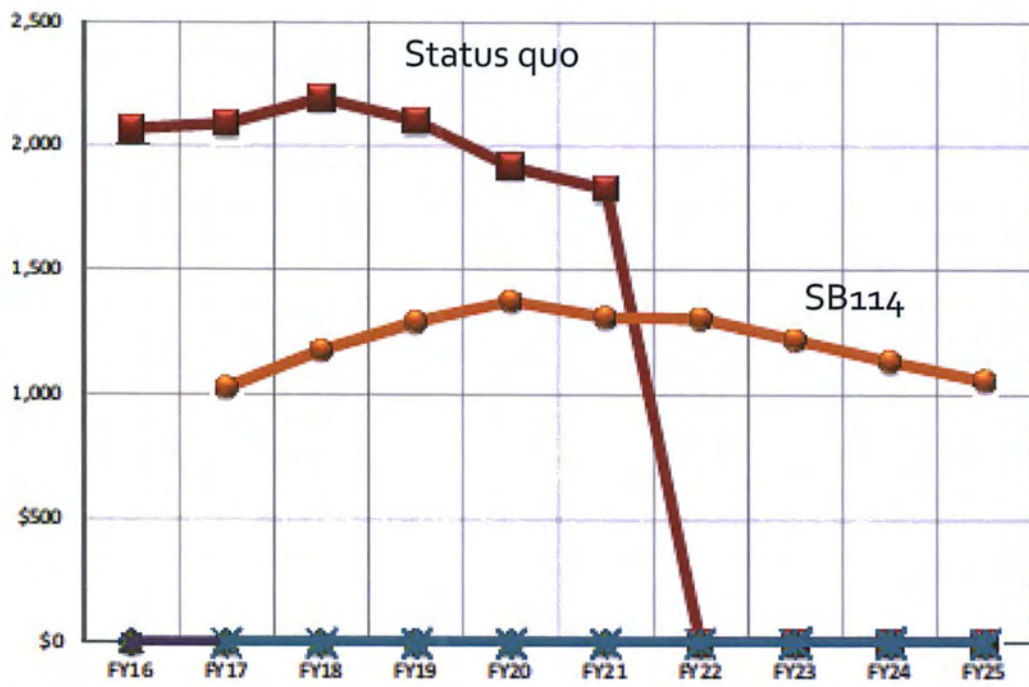
**UGF Revenue/ Budget
(\$ millions)**



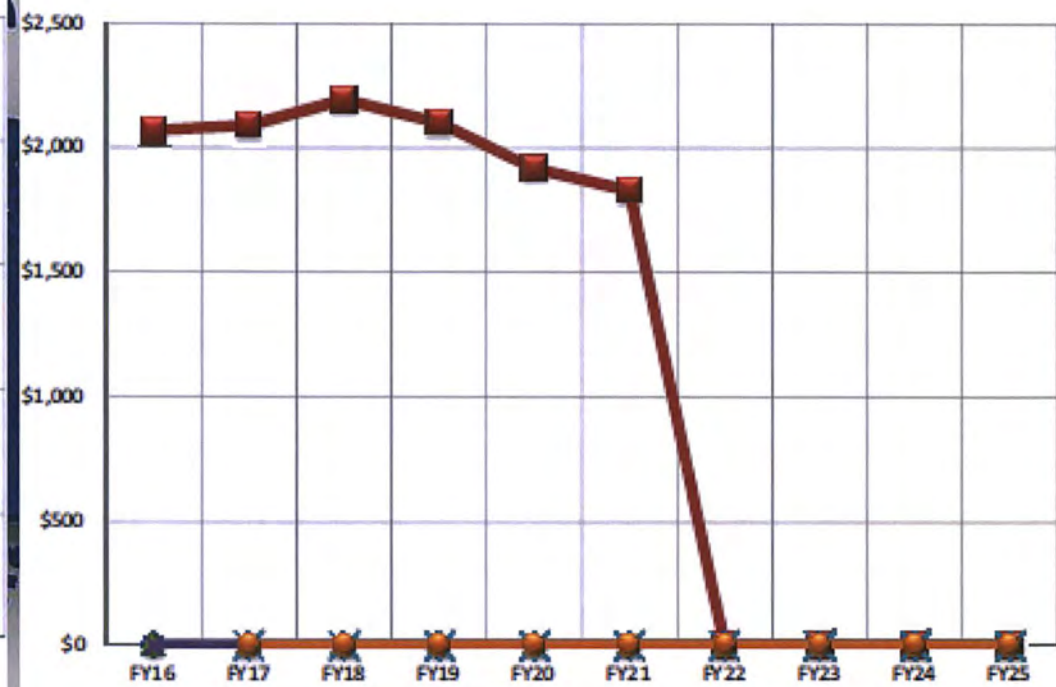
SB114

Status Quo

Dividend Check



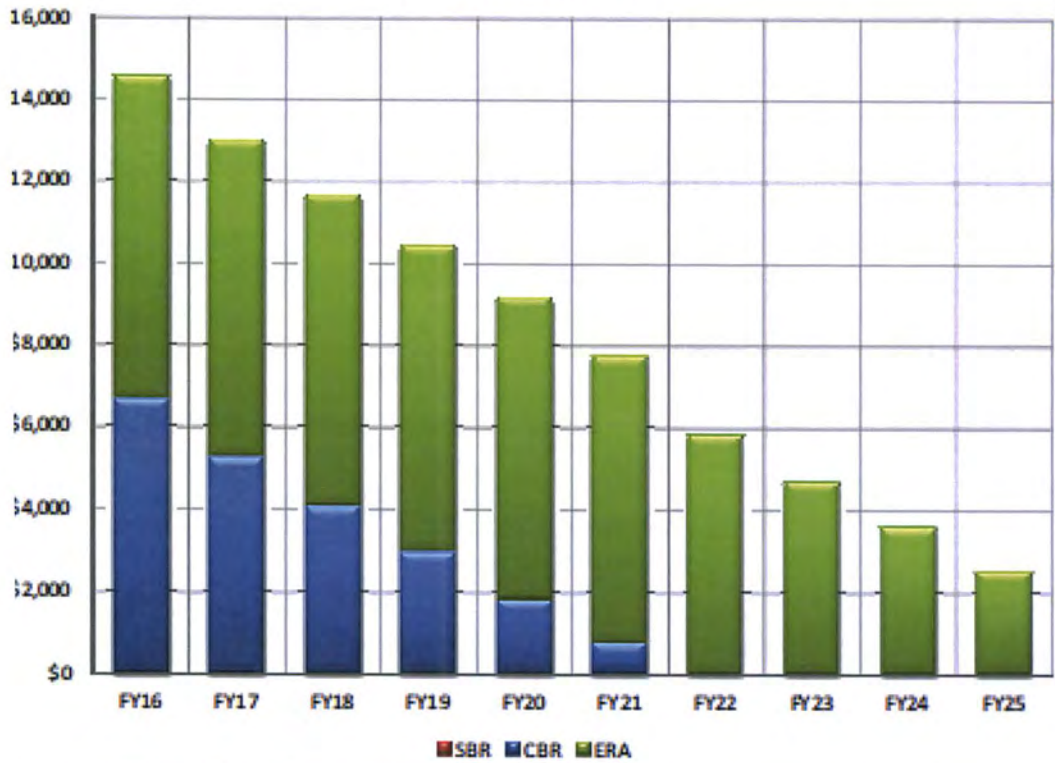
Dividend Check



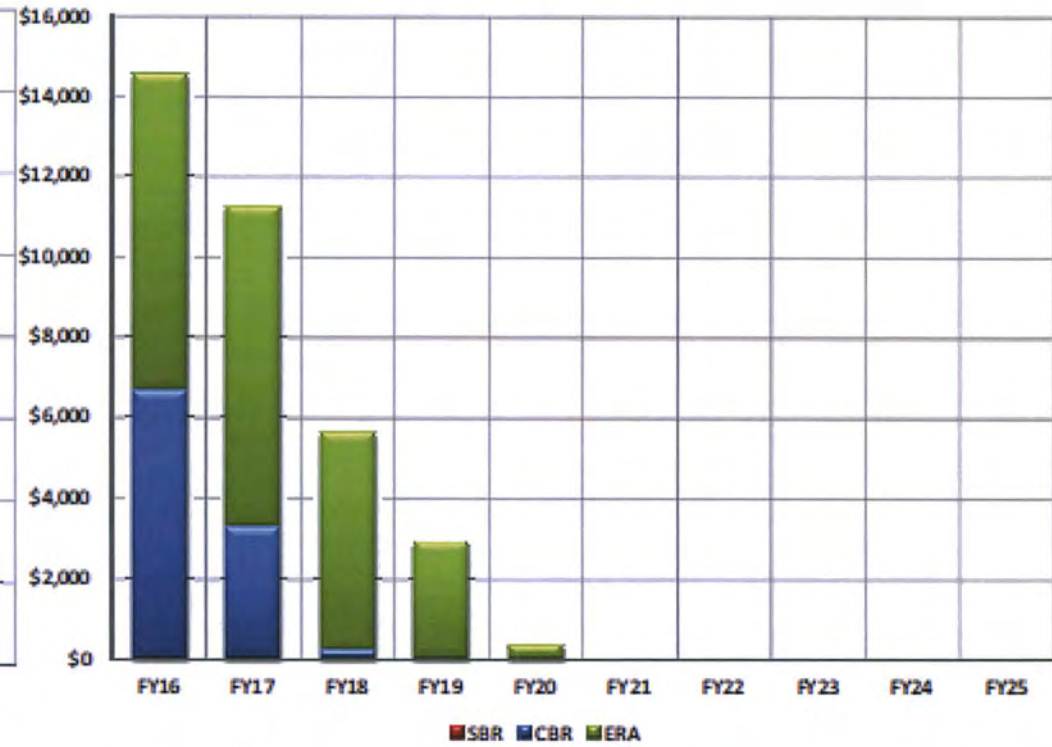
SB114

Status Quo

Budget Reserves



Budget Reserves



SB114

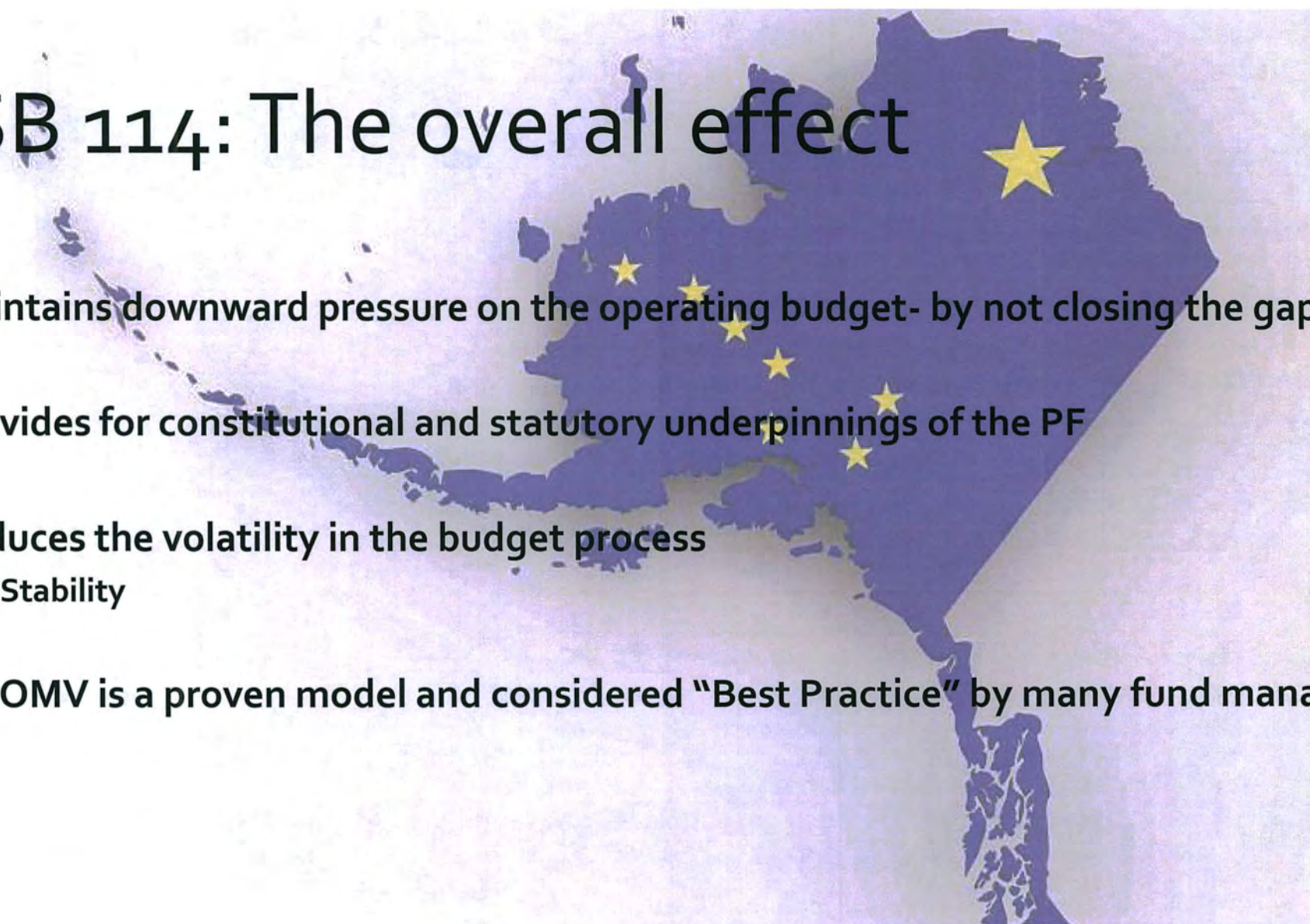
Status Quo

SB 114: The overall effect



- **Ties the Dividend directly to Oil & Gas and Mineral production**
 - Currently structured to pay a dividend with a floor of \$1,000
 - Protects the Dividend for future generations
- **Reduces the CBR draw to cover deficit**
 - This will extend the life of the CBR several years
- **Gives the legislature “Glide Path” (breathing room) to consider**
 - Additional budget cuts
 - New sources of revenue
- **Reduces the deficit between $\frac{1}{3}$ and $\frac{1}{2}$ depending on final formula (scenario 1 vs scenario 2)**

SB 114: The overall effect



- Maintains downward pressure on the operating budget- by not closing the gap
- Provides for constitutional and statutory underpinnings of the PF
- Reduces the volatility in the budget process
 - Stability
- A POMV is a proven model and considered “Best Practice” by many fund managers

SB 114: Final Thoughts



- Alaska has always been a “Boom and Bust” state (now due to commodity volatility)
 - BUT, we don’t have to be
- We are in Chapter 38 of ALASKA
 - How do we want the next chapters to read?



SB 114: Our Glide Path

**Distributed via Ben Sparks on behalf of Alaska's Future Co-Chairs:
GCI President Ron Duncan and AFL-CIO President Vince Beltrami**

SB 114 Talking Points

Implementing SB 114:

Implementing SB 114, in addition to spending cuts and new revenues would:

- Protect our dividend, and ensure our checks don't fall below \$1,000
- Protect Alaska citizens and businesses from what would otherwise be larger tax increases
- Protect vital public services, like education, transportation, and veterans services
- Protect Alaska jobs
- Would back Alaska away from the edge of a fiscal cliff, and create an economic environment in which businesses can plan continued investment in Alaska

Background

What is SB 114?

SB 114 is a crucial part of the long-term solution to address our nearly \$4 billion budget deficit. SB114 would cut our deficit in half using 5% of our permanent fund earnings, while protecting the Permanent Fund itself and ensuring Alaskans will receive a dividend check of at least \$1,000.

SB 114 would do four things:

1. Protect our Permanent Fund
2. Ensure everyone continues to receive a PFD check
3. Cut our growing budget deficit in half
4. Reduce our reliance on oil and gas revenues to fund our government

How would SB 114 work?

Our Current System

1. Right now, our state budget is primarily funded from oil and gas revenue (a percentage of oil/gas/mineral royalties and rents)
2. Our PFD check is calculated based on a 5-year average of the fund's performance.
3. We are expecting a \$4 billion deficit this year because of low oil prices.

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GCI President Ron Duncan and AFL-CIO President Vince Beltrami**

In short, our current system is structured such that we'll run serious budget deficits whenever the price of oil drops. **SB 114 would reduce Alaska's dependence on the price of oil to balance our budget.**

Our System under SB 114:

1. **SB 114 would use our oil and gas revenue** (a percentage of oil/gas/mineral royalties and rents) **to pay our dividend, while ensuring our dividend checks do not fall below \$1,000.**

2. **SB 114 would take 5% of the value of the Permanent Fund, based on a 5-year rolling average, and use that to fund Alaska's budget.**

** SB 114 would not touch the Permanent Fund itself (corpus), and would only utilize a portion of the earnings to fund Alaska's government.

In conclusion: SB 114 would restructure the Permanent Fund so that Alaska's government is funded by a stable source, the Permanent Fund earnings, instead of our budget being tied to oil and gas revenue. SB 114 would increase the life of our savings (Constitutional Budget Reserve, or CBR) and put us on a path to financial security. It would provide for a dividend check of around \$1,000 and protect the PFD for generations to come.

Will SB 114 fix our budget deficit?

To fix our budget deficit, the legislature will need to cut spending and find new sources of revenue, but these alone will not come close to filling our budget deficit. That's why SB 114 needs to be implemented this year.

SB 114 will cut our deficit in half, and is the cornerstone of a comprehensive solution that will also need to include spending cuts and new sources of revenue.

What is the problem with Alaska and its budget?

From 2005-2014, oil revenues have averaged 90% of Alaska's operation budget. With the price of oil falling below \$30 a barrel, Alaska doesn't have enough money to pay its bills, creating a massive budget gap. At this rate, our savings will be gone in less than two years. We need to implement a common-sense, long-term solution that solves Alaska's budget challenge. The solution to our budget deficit requires a comprehensive solution including the implementation of SB 114, cutting the size of government, and finding new sources of revenue.

Why not cut more and/or find new sources of revenue?

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We understand there needs to be spending cuts, and our state will need new sources of revenue, but these alone will not come close to filling our nearly \$4 billion budget deficit. Solving our budget shortfall long-term will require a comprehensive solution of SB 114, spending cuts, and additional sources of revenue.

This will allow us to keep taxes low, preserve vital public services, and ensure we protect our Permanent Fund dividend for generations to come.

What would happen if we don't implement SB 114?

If we don't implement SB 114, our savings will be depleted in two years. Alaska will have no choice but to implement painful cuts to vital public services, coupled with painful tax increases that will hurt every Alaskan from every walk of life. We will face an almost certain recession, which will deal a crippling blow to Alaska's private sector.

Further, our Permanent Fund will be in jeopardy, and the Permanent Fund dividend program will almost certainly end in two to three years.

Does SB 114 keep the PFD in place for future generations?

If we don't implement SB 114, our PFD check will likely stop, and our Permanent Fund will be in danger.

SB 114 keeps the dividend payment intact for all Alaskans, ties it to resource development, and guarantees it will never fall below \$1,000. This creates a direct financial incentive to successfully develop our resources, leading to a higher individual payout.

SB 114 would protect the Permanent Fund itself, while ensuring every Alaskan continues to receive a PFD check for generations to come.

Can implementing SB 114 wait until next session?

No. This would lead to painful cuts to vital public services, on top of painful tax increases that would hurt every Alaskan from every walk of life.

We would then be in the exact same position we're in now, except half of our savings would be depleted, our credit would likely be downgraded, our private sector will have retracted, and our state would be on the brink of recession.

We need to act this session.



Alaska Permanent Fund Corporation

P. O. Box 115500 Juneau, AK 99801
 Tel: (907) 796-1500 Fax: (907) 586-2057

February 16, 2016

Senator Bill Wielechowski
 VIA EMAIL

Dear Senator Wielechowski –

In a letter dated February 12, 2016 to Department of Revenue Commissioner Hoffbeck, you asked four questions regarding inflation proofing transfers. You asked for the same information during the Senate State Affairs Committee hearing on February 16, 2016. This letter serves to answer both your written questions and those asked in committee.

1) History of all appropriations to the Alaska Permanent Fund from the Earnings Reserve Account.

Fiscal Year	Transfer	Fiscal Year	Transfer	Fiscal Year	Transfer	Fiscal Year	Transfer
1980	\$0.3	1990	\$454.0	2000	\$422.9	2010	\$0.0
1981	\$0.2	1991	\$558.8	2001	\$685.9	2011	\$533.2
1982	\$0.0	1992	\$476.9	2002	\$602.3	2012	\$1,073.1
1983	\$231.2	1993	\$362.5	2003	\$352.1	2013	\$703.0
1984	\$150.9	1994	\$372.3	2004	\$524.1	2014	\$585.6
1985	\$234.6	1995	\$347.6	2005	\$641.0	2015	\$624.4
1986	\$216.4	1996	\$407.1	2006	\$855.9		
1987	\$148.1	1997	\$485.6	2007	\$860.4		
1988	\$302.9	1998	\$422.7	2008	\$807.7		
1989	\$360.2	1999	\$288.2	2009	\$1,144.3		
1980	\$0.3	1990	\$454.0	2000	\$422.9		

Notes:

- 1980: Realized gains retained in Fund principal, per note page 7 of FY80 annual report.*
- 1981: Note page 9 in FY81's annual report. "Net realized gain on transactions retained in the Fund's principal is \$219,388".*
- 2003: FY03 inflation proofing = \$352,052 and the special FY03 appropriation of \$354.2 will be reclassified as pre funding inflation proofing for FY04.*
- 2010: The statutory inflation proofing transfer calculation produced a negative number.*

2) Forecasted calculation of the 2015 Permanent Fund Dividend and balance of the Permanent Fund Corpus if the State of Alaska had not inflation-proofed the Fund.

The statutory dividend calculation is based on the statutory net income from both the principal and the earnings reserve account. If the inflation proofing transfers had not been made over the years, the transfer amount would have remained in the earnings reserve and as a result the dividend amount for FY2015 would be the same as what was paid out.

At the close of fiscal year 2015, the principal of the Permanent Fund was valued at \$45.6 billion and the earnings reserve was valued at \$7.2 billion. If the inflation proofing transfers had not been made, the value of principal would have been \$26.7 billion and the value of the earnings reserve would have been \$26.1 billion. In either scenario, the total value of assets under management would be the same: \$52.8 billion.

3) Projected impact over the next 20 years on both the Permanent Fund and the Permanent Fund Dividend if the State of Alaska does not appropriate funds for inflation proofing in FY17.

APFC's projections for the Permanent Fund extend out ten years, so we are unable to model the impact of the proposed action over 20 years.

Current projections show the ending balance of the principal of the Fund in fiscal year 2026 as \$68.5 billion and of the earnings reserve as \$15.4 billion. If the projected inflation proofing transfer of \$896 million was not made in fiscal year 2017, the principal balance for the close of fiscal year 2026 is projected to be \$67.3 billion and the earnings reserve would be \$16.5 billion. In either scenario, the total value of assets under management would be the same: \$83.8 billion.

The statutory dividend calculation is based on the statutory net income from both the principal and the earnings reserve account. If the inflation proofing transfers for fiscal year 2017 is not made, the transfer amount will remain in the earnings reserve and as a result future dividend projections remain the same.

4) Projected impact on both the Permanent Fund and the Permanent Fund Dividend over the next 20 years if the State of Alaska does not appropriate funds for inflation proofing for the next 10 years.

APFC's projections for the Permanent Fund extend out ten years, so we are unable to model the impact of the proposed action over 20 years.

Current projections show the ending balance of the principal of the Fund in fiscal year 2026 as \$68.5 billion and of the earnings reserve as \$15.4 billion. If the inflation proofing transfers, projected to total \$10.3 billion, are not made over the next ten years, the

earnings reserve is projected to be \$55.2 billion and the earnings reserve would be \$28.6 billion. Total assets under management would remain the same, and the projected dividend would not change as explained above.

Sincerely,

A handwritten signature in black ink that reads "Angela M. Rodell". The signature is written in a cursive, flowing style.

Angela Rodell
Executive Director

cc: Randall Hoffbeck, Commissioner, Department of Revenue
Senator Bill Stoltze, Chair, State Affairs Committee

*This document added to the public record for SS for SB 114 in the Senate State Affairs
Committee at the request of the bill sponsor: Senator Lesil McGuire. 2/23/2016*

Callan
FORTY YEARS



February, 2016

Legislation Impact Analysis

**Status Quo versus SB128/HB245,
SB114/HB303, HB224**

Gregory C. Allen
President & Director of
Research

Objectives

- Build a financial model that simulates the impact of each of the proposals on the permanent fund.
- Compare each proposal to the status quo using a consistent set of capital markets assumptions and asset allocation assumptions.
- Evaluate each proposal in the context of a series of key financial variables:
 - In-flows, out-flows, net-flows;
 - Market value (nominal and real);
 - Statutory net income;
 - Earnings reserve balance;
 - Variability of distributions, real market value, and earnings reserve balance.
- Simulate using both deterministic and stochastic models.
- Discuss potential implications for asset allocation policy, liquidity policy, and cash-management and forecasting policies.

Capital Market Assumptions

Projected Return and Standard Deviation

- Employed Callan's 2015 10-year capital market expectations for all models.
- Expectations are developed annually and used for strategic planning work for all client types.
- Represent long-term consensus expectations.
- Designed to work as a set in optimization and simulation analysis.
- Generally these expectations evolve slowly with only modest year-to-year changes.

Projected Return and Standard Deviation

Asset Class	Projected	Annualized	Annualized Standard Deviation
	Arithmetic Return	10-Year Geometric Return	
US Equity	9.15%	7.60%	19.0%
Non US Equity	9.80%	7.80%	21.5%
Private Equity	13.55%	8.50%	33.0%
Absolute Return	5.55%	5.25%	9.3%
Real Estate	7.35%	6.20%	16.5%
Infrastructure	6.80%	5.50%	17.0%
US Fixed Income	3.05%	3.00%	3.8%
High Yield	5.50%	5.00%	11.1%
Non-US Fixed Income	2.70%	2.30%	9.4%
TIPS	3.10%	3.00%	5.3%
Inflation	2.25%	2.25%	1.5%

Capital Market Assumptions

Projected Correlation Matrix

Projected Correlations between Asset Classes

Asset Class	US Equity	Non US Equity	Private Equity	Absolute Return	Real Estate	Infra Structure	US Fixed Income	High Yield	Non-US Fixed Income	TIPS
US Equity	1.00									
Non US Equity	0.88	1.00								
Private Equity	0.94	0.93	1.00							
Absolute Return	0.76	0.73	0.74	1.00						
Real Estate	0.73	0.67	0.72	0.59	1.00					
Infrastructure	0.63	0.55	0.60	0.55	0.65	1.00				
US Fixed Income	(0.11)	(0.12)	(0.18)	0.10	(0.02)	(0.10)	1.00			
High Yield	0.60	0.59	0.61	0.54	0.54	0.55	0.04	1.00		
Non-US Fixed Income	0.01	0.01	(0.06)	(0.08)	(0.05)	(0.10)	0.51	0.12	1.00	
TIPS	(0.05)	(0.05)	(0.09)	0.07	0.01	0.20	0.58	0.03	0.34	1.00

- Projected correlations between asset classes are the third dimension of capital market expectations.
- Historical trending behavior is evaluated for each pair in the matrix.
- Correlations must be consistent (positive semi-definite) as a set in order to work properly in optimization and simulation analysis.

Assumed Asset Allocation

Used Actual Asset Allocation as of June 30, 2015

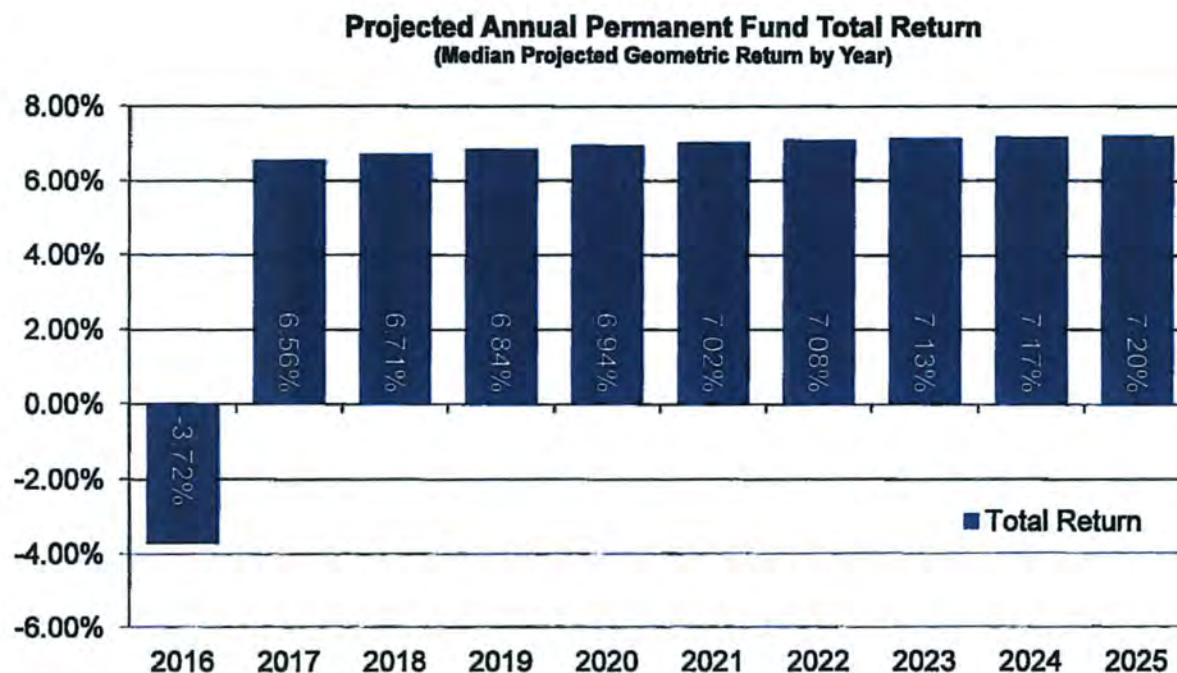
- Employed consistent asset allocation across all models to allow for apples-to-apples comparisons.
- Quarterly rebalancing was assumed which yields more comparable results across the models.
- Rebalancing assumptions are important because they impact turnover in the portfolio which results in gains realization.

Asset Class	APFC Current Allocation
US Equity	17%
Non US Equity	24%
Private Equity	10%
Absolute Return	12%
Real Estate	12%
Infrastructure	3%
US Fixed Income	17%
High Yield	1%
Non-US Fixed Income	2%
TIPS	2%
Total	100%
Projected 10-Year Annualized Geometric Return	6.90%
Projected Annualized Standard Deviation	13.90%

Additional Assumptions Impacting Return Projections

Actual Experience through January, 2016, and Rising Rates

- Estimated total return for Fund through January 29, 2016 (per daily report) was -6.18%.
- Employed actual return for first 7 months and 5/12 of standard Callan 2016 return projection for last 5 months to yield projected return of -3.72%.
- Projected returns in subsequent years employed Callan's standard model which calls for gradually rising rates.
- Rising rates results in lower bond returns in earlier years and higher returns in later years, reaching equilibrium in approximately 2027.



Key Financial Variables

Monitoring these variables allows us to compare and contrast proposals

- **In-flows, out-flows, net-flows;** The key financial difference between the status quo and the three proposals is the size, timing, and variability of flows into and out of the fund.
- **Market value (nominal and real);** Market value is impacted by return and net-flows over time. Real market value is an indication of whether Fund is maintaining its inflation adjusted purchasing power over time.
- **Statutory (realized) net income;** Net-flows will also impact gains realization which impacts this variable. Realized income determines the size of the Earnings Reserve account over time.
- **Earnings Reserve balance;** The size of this account is the limiter on distributions. As long as it remains large relative to pay-outs, pay-outs can be maintained during volatile markets.
- **Variability of distributions, real market value, and earnings reserve balance;** Examining all variables in the context of simulated market volatility allows us to understand the sustainability of each approach in median-case and worst-case outcomes.

Comparing the Proposals

Key Assumptions Impacting Financial Modelling

Principal	Status Quo	SB128/HB245	SB114/HB303	HB224
Deposits	30% royalties	25% royalties	25% royalties	25% royalties
Additional appropriations to Principal	Change in inflation rate applied to principal balance at end of year	ER balance in excess target (target = 4 X distribution)		

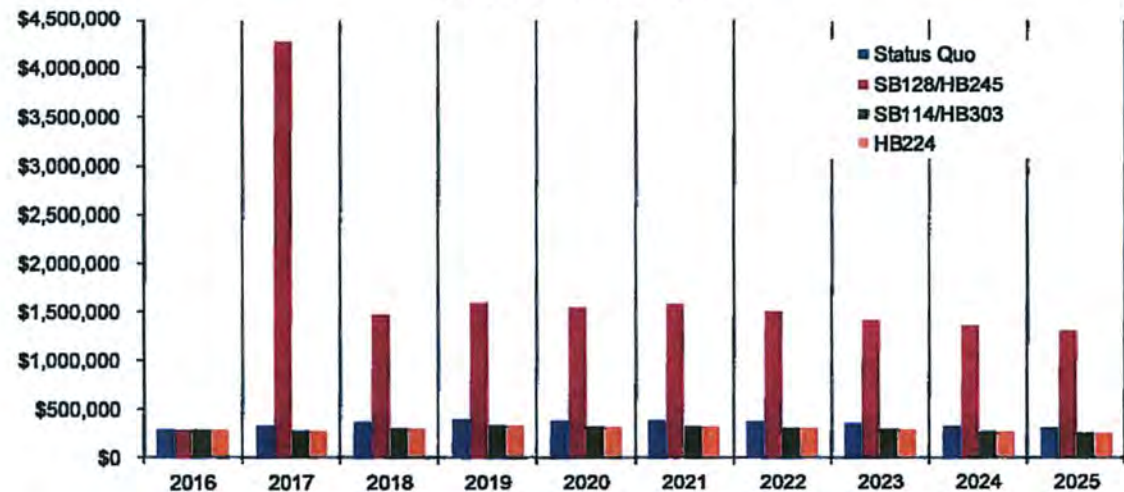
Earnings Reserve	Status Quo	SB128/HB245	SB114/HB303	HB224
Income	Statutory Net Income	Statutory Net Income	Statutory Net Income	Statutory Net Income
Deposits		\$3b from CBR in FY17, 74.5% royalties, 100% production taxes		
FY 2016 Dividend Distribution	Status Quo	Amount necessary to pay \$1,000 dividend	Paid from distribution to government fund	Status Quo
Distributions	Half of 21% of five-year total statutory net income	\$3.3b through FY19, optional inflation adjustment thereafter, plus 50% of royalties	5% of lagged five-year average market value	4.5% of lagged five-year average market value
Limitation on Total Distribution	Earnings Reserve Balance	Earnings Reserve Balance	Earnings Reserve Balance	Earnings Reserve Balance
Timing of Draw	End of July	Throughout year	Throughout year	Throughout year (simplifying assumption)

Projected Net In-Flows to Fund

Contributions

- In-flows are shown on a cash-basis in the year in which they are projected to occur.
- Oil revenue projections are based on the Fall 2015 Revenue Sources Book projections.
- SB128 assumes one-time transfer of \$3 billion from CBR in FY 2017.
- SB128 also transfers additional oil revenues in each year.
- Status Quo receives approximately 30% of royalties.
- Both POMV plans receive 25% of royalties.

Projected Annual In-Flows
(Oil Revenue and CBR Transfer)

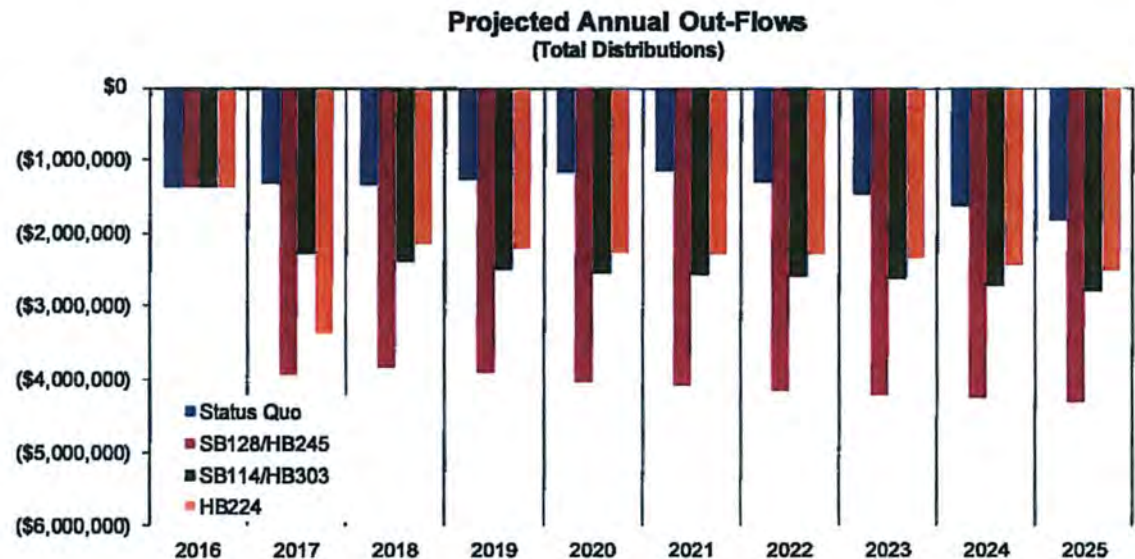


Annual In-Flow	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$287,681	\$287,681	\$287,681	\$287,681
2017	\$328,878	\$4,271,962	\$272,399	\$272,399
2018	\$362,445	\$1,478,919	\$302,037	\$302,037
2019	\$390,849	\$1,581,981	\$325,541	\$325,541
2020	\$376,988	\$1,545,938	\$314,155	\$314,155
2021	\$380,751	\$1,581,253	\$317,292	\$317,292
2022	\$361,130	\$1,504,839	\$300,942	\$300,942
2023	\$338,812	\$1,409,783	\$282,178	\$282,178
2024	\$320,244	\$1,354,701	\$268,870	\$268,870
2025	\$301,859	\$1,301,872	\$251,549	\$251,549
5-Year Total	\$1,744,639	\$9,178,458	\$1,501,812	\$1,501,812
10-Year Total	\$3,447,235	\$16,328,906	\$2,820,643	\$2,820,643

Projected Out-Flows From Fund

Total Distributions

- Status quo employs standard dividend distribution formula.
- SB128 assumes \$3.3 billion distributions through 2019, and inflation adjusted thereafter.
- SB128 assumes an additional distribution in FY 2017 sufficient to support a \$1,000 dividend (approximately \$650 million).
- SB114 assumes distributions equal to 5% of 5-year average market value for all years. No additional distribution for dividend in FY 2017.
- HB224 assumes distributions equal to 4.5% of 5-year average market value for all years, plus FY2016 status quo dividend distribution in 2017.

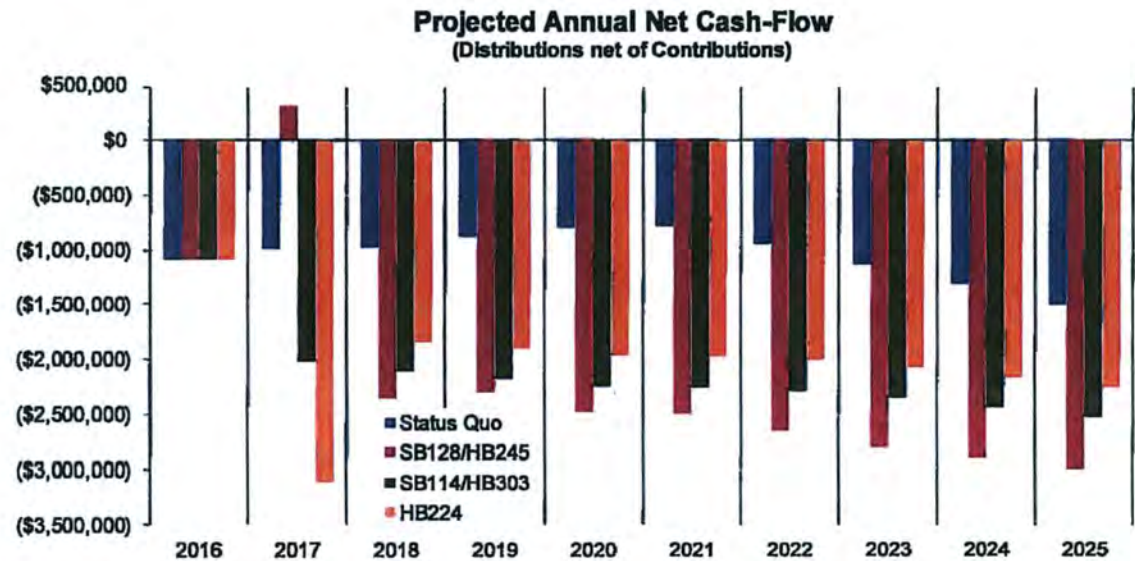


Annual Out-Flow	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	(\$1,373,102)	(\$1,373,102)	(\$1,373,102)	(\$1,373,102)
2017	(\$1,320,348)	(\$3,951,651)	(\$2,293,649)	(\$3,384,632)
2018	(\$1,350,146)	(\$3,844,797)	(\$2,403,248)	(\$2,151,040)
2019	(\$1,271,987)	(\$3,904,074)	(\$2,500,479)	(\$2,230,298)
2020	(\$1,162,892)	(\$4,025,331)	(\$2,584,657)	(\$2,281,882)
2021	(\$1,150,580)	(\$4,078,481)	(\$2,578,279)	(\$2,289,672)
2022	(\$1,303,399)	(\$4,162,384)	(\$2,589,882)	(\$2,298,162)
2023	(\$1,488,242)	(\$4,208,058)	(\$2,634,717)	(\$2,350,870)
2024	(\$1,632,093)	(\$4,252,689)	(\$2,707,171)	(\$2,427,432)
2025	(\$1,796,848)	(\$4,305,064)	(\$2,785,178)	(\$2,509,744)
5-Year Total	(\$6,478,475)	(\$17,098,956)	(\$11,135,135)	(\$11,420,751)
10-Year Total	(\$13,829,637)	(\$38,106,633)	(\$24,430,371)	(\$23,296,632)

Projected Net Cash-Flows

Contributions minus Distributions

- Net cash-flow shows total dollar impact on the Fund each year.
- Status Quo is the lowest, distributing about half the amount of the three proposals over 10 years.
- The three proposals have similar total distribution levels over 10 years.
- The pattern is quite different between SB128 and the two POMV proposals due primarily to the additional contributions from CBR and oil.

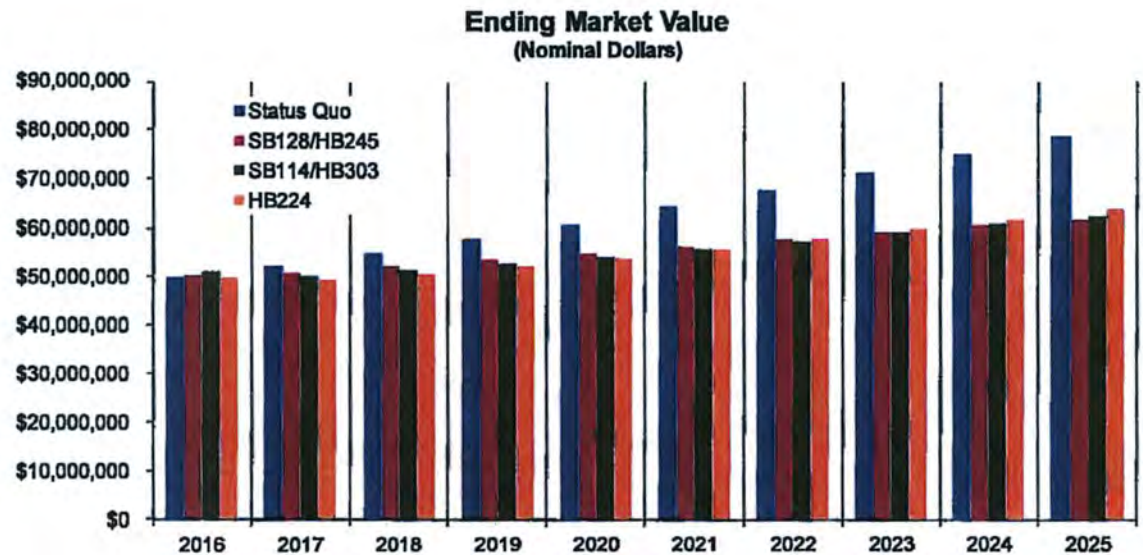


Annual Net Flow	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	(\$1,085,421)	(\$1,085,421)	(\$1,085,421)	(\$1,085,421)
2017	(\$993,470)	\$320,311	(\$2,021,250)	(\$3,112,233)
2018	(\$987,701)	(\$2,365,878)	(\$2,101,211)	(\$1,849,003)
2019	(\$881,338)	(\$2,312,113)	(\$2,174,939)	(\$1,904,755)
2020	(\$785,908)	(\$2,479,395)	(\$2,250,502)	(\$1,967,526)
2021	(\$769,829)	(\$2,487,228)	(\$2,280,987)	(\$1,972,380)
2022	(\$842,269)	(\$2,657,545)	(\$2,288,950)	(\$1,997,220)
2023	(\$1,129,630)	(\$2,799,275)	(\$2,352,541)	(\$2,088,694)
2024	(\$1,311,849)	(\$2,897,989)	(\$2,440,300)	(\$2,160,562)
2025	(\$1,494,989)	(\$3,003,193)	(\$2,533,627)	(\$2,258,196)
5-Year Total	(\$4,733,836)	(\$7,922,497)	(\$9,633,323)	(\$9,918,939)
10-Year Total	(\$10,382,402)	(\$21,777,727)	(\$21,509,728)	(\$20,375,980)

Projected Ending Market Value

Nominal Dollars

- Consistent with what the net flows would suggest, Status Quo results in the highest market value at the end of 10 years.
- The three bills are only slightly different in this dimension.
- SB128 starts out with a higher market value due to the CBR transfer and the lower dividend distribution for FY 2016.
- The larger draws in later years for SB128 result in the market value growing more slowly than for the other proposals.

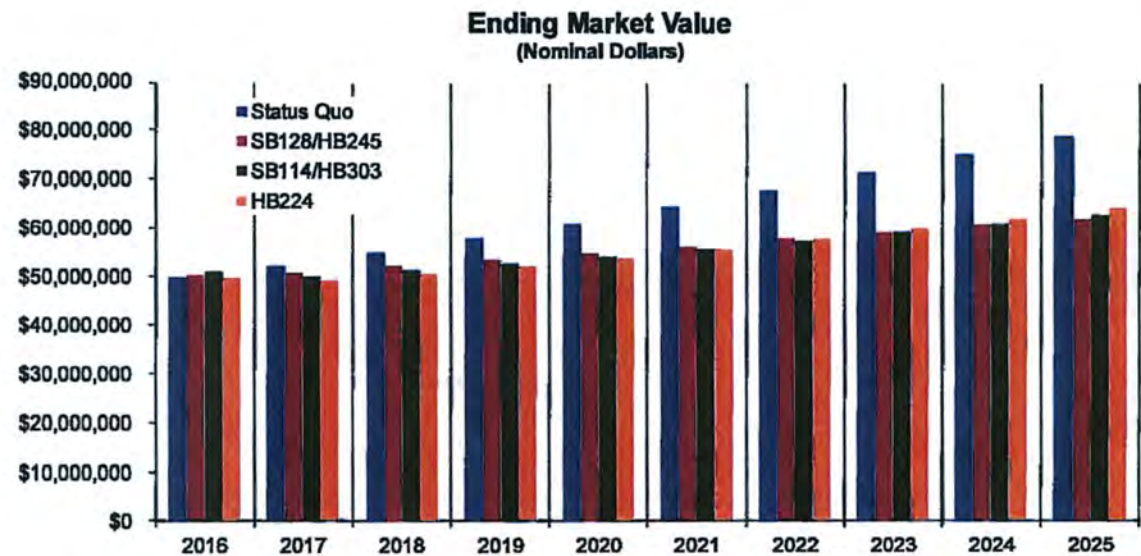


Ending Market Value	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$49,779,818	\$50,448,515	\$51,100,166	\$49,779,818
2017	\$52,058,624	\$50,936,833	\$50,058,176	\$48,139,249
2018	\$54,681,107	\$52,085,079	\$51,271,142	\$50,562,854
2019	\$57,685,700	\$63,450,183	\$52,575,910	\$52,101,591
2020	\$60,951,504	\$54,789,750	\$53,985,825	\$53,767,804
2021	\$64,344,989	\$56,223,415	\$55,582,687	\$55,636,304
2022	\$67,835,357	\$57,670,650	\$57,301,502	\$57,646,145
2023	\$71,421,810	\$59,108,139	\$59,071,674	\$59,708,608
2024	\$75,109,444	\$60,582,150	\$60,874,040	\$61,824,347
2025	\$78,899,520	\$62,029,731	\$62,724,663	\$64,006,633

Projected Real Ending Market Value

Inflation Adjusted 2015 Dollars

- In a standard endowment model the objective is often to preserve the purchasing power, or inflation adjusted market value.
- All proposals result in a (slightly) higher real market value at the end of 2025 assuming median capital market results.
- This would imply that they all have a roughly 50% chance of preserving real market value in 2015 dollars.
- Status quo results in meaningfully higher real market value.



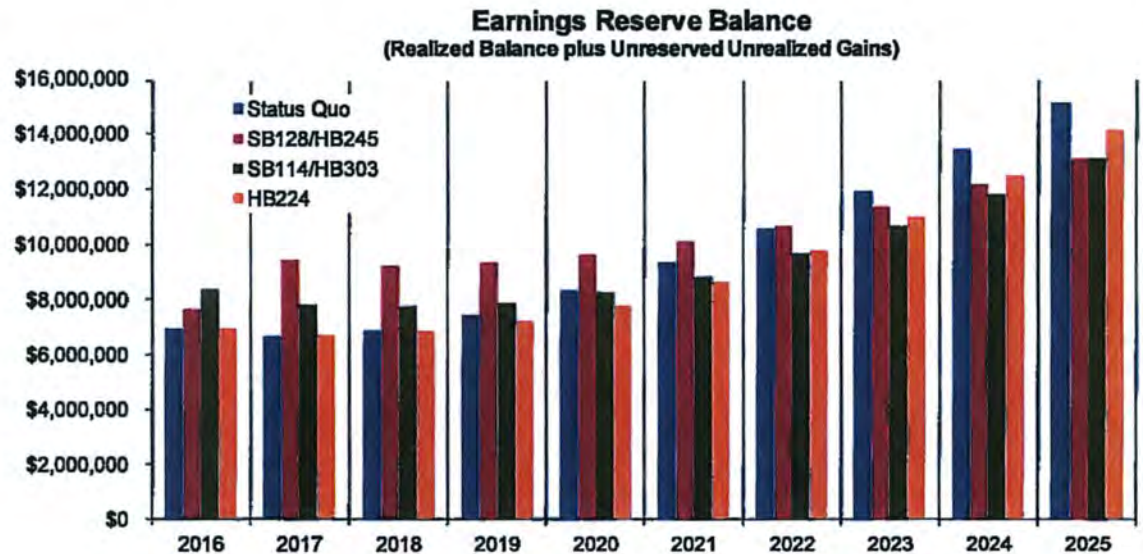
Real Ending Market Value ¹	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$48,684,419	\$49,338,401	\$49,975,712	\$48,684,419
2017	\$49,792,743	\$48,719,778	\$47,877,452	\$47,000,438
2018	\$51,150,202	\$48,721,808	\$47,980,427	\$47,297,875
2019	\$52,773,379	\$48,898,545	\$48,098,722	\$47,884,794
2020	\$54,534,081	\$49,021,064	\$48,301,783	\$48,108,717
2021	\$56,303,427	\$49,198,853	\$48,838,200	\$48,883,117
2022	\$58,051,427	\$49,352,781	\$49,038,875	\$49,331,810
2023	\$59,775,851	\$49,489,868	\$49,439,349	\$49,972,423
2024	\$61,478,703	\$49,571,428	\$49,828,717	\$50,804,584
2025	\$63,159,885	\$49,655,428	\$50,211,728	\$51,237,959

1. Market value adjusted to 6/30/2015 dollars using cumulative inflation.

Projected Ending Earnings Reserve Balance

Limitation on Distributions

- Earnings Reserve is equal to all of the cumulative realized gains (and income) to date, net of distributions and appropriations to principal.
- By constitution it places a limit on spending from the Permanent Fund.
- Keeping a healthy balance in the ER is critical to keeping distributions stable through down markets.
- SB128 maximizes the size of the ER early which provides some additional insurance that distributions can be made in sustained bear markets.
- Status Quo results in the highest balance after 10 years.

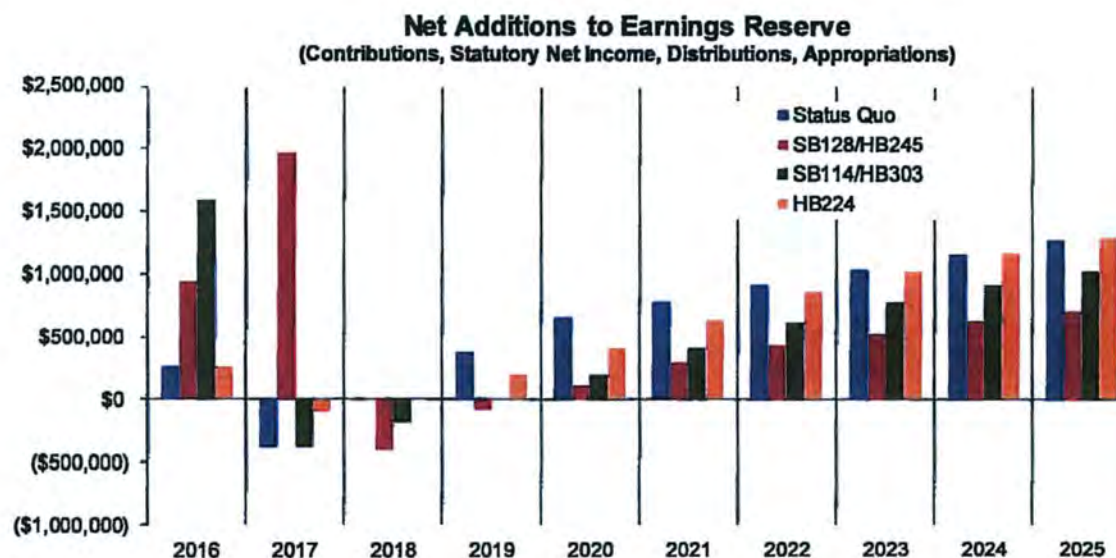


Earnings Reserve Balance	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$6,959,529	\$7,675,889	\$8,372,689	\$6,959,529
2017	\$8,718,111	\$9,448,638	\$7,809,255	\$6,735,762
2018	\$8,864,085	\$9,249,035	\$7,778,187	\$6,887,517
2019	\$7,438,381	\$9,354,822	\$7,923,350	\$7,244,245
2020	\$8,333,884	\$9,631,001	\$8,271,251	\$7,830,037
2021	\$9,382,703	\$10,097,375	\$8,880,503	\$8,678,943
2022	\$10,590,569	\$10,697,490	\$9,679,641	\$9,780,232
2023	\$11,955,181	\$11,398,084	\$10,880,827	\$11,074,616
2024	\$13,469,537	\$12,201,325	\$11,824,883	\$12,530,335
2025	\$15,127,032	\$13,100,948	\$13,099,813	\$14,135,227

Projected Net Additions to Earnings Reserve

Contributions, Distributions, Statutory Net Income, Appropriations

- Net contributions to Earnings Reserve allow you to see the large differences between the three proposals and Status Quo.
- The front-loading by SB128 is created by the reduced \$1,000 dividend distribution for FY 2016, and the transfer from the CBR.
- SB114 achieves this as well (to a lesser extent) by not having a dedicated dividend distribution in FY 2016.
- Status Quo is projected to have negative years in 2017 and 2018 due to significant gains realized over last five years, and a down market this year.

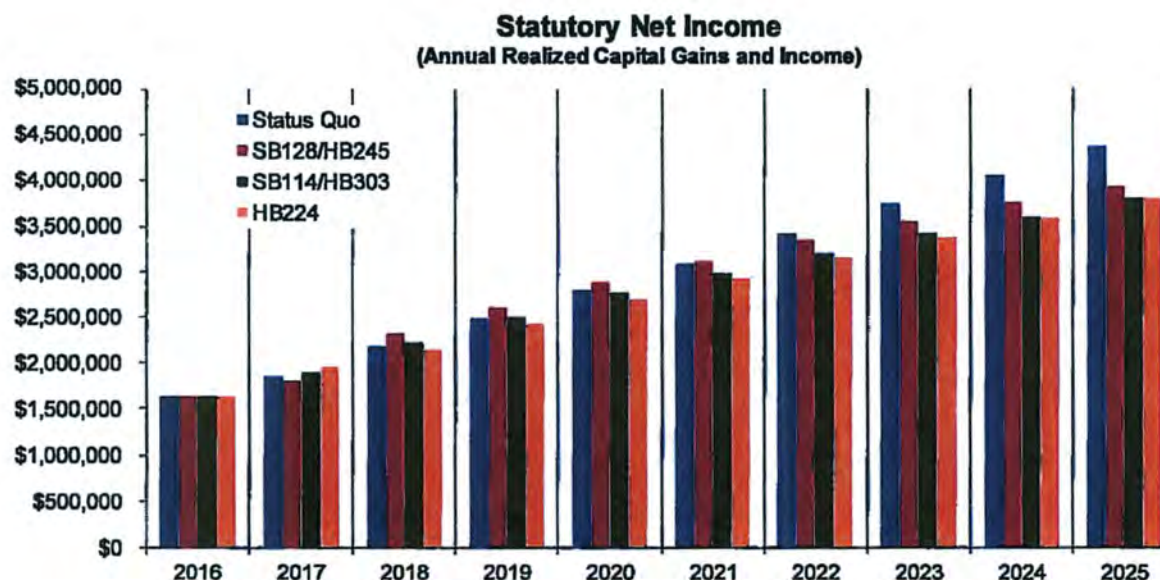


Net Additions to Earnings Reserve	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$273,308	\$942,006	\$1,593,656	\$273,308
2017	(\$387,041)	\$1,969,267	(\$388,397)	(\$102,069)
2018	(\$4,620)	(\$405,114)	(\$185,039)	\$1,847
2019	\$384,124	(\$81,797)	\$1,949	\$204,738
2020	\$864,577	\$112,140	\$197,755	\$415,289
2021	\$787,354	\$299,020	\$414,782	\$843,998
2022	\$917,023	\$430,753	\$819,937	\$861,579
2023	\$1,043,888	\$526,805	\$783,709	\$1,030,923
2024	\$1,164,518	\$626,894	\$911,887	\$1,169,880
2025	\$1,279,622	\$714,738	\$1,025,273	\$1,295,798
5-Year Total	\$930,349	\$2,536,501	\$1,219,824	\$793,094
10-Year Total	\$8,122,754	\$5,134,710	\$4,975,511	\$5,795,289

Projected Statutory Net Income

Realized Capital Gains and Income

- Statutory Net Income is function of coupon and dividend income plus realized capital gains.
- Realized capital gains are impacted by turnover.
- Net flows out of the fund force selling which creates turnover which impacts Statutory Net Income.
- Over time the higher market value will ultimately dominate and create higher Statutory Net Income.
- Over shorter periods selling can create anomalies.

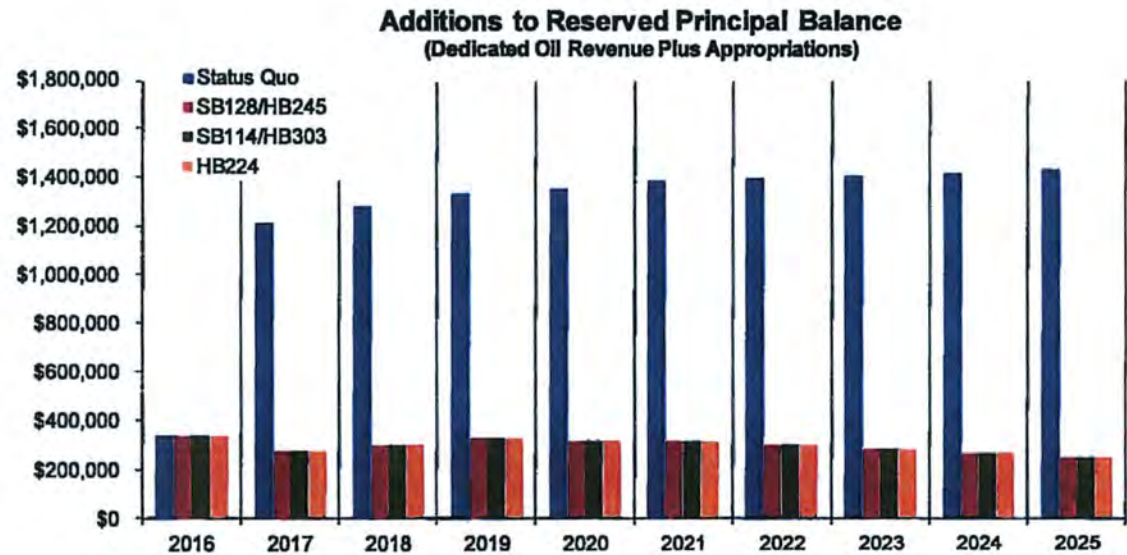


Statutory Net Income	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$1,640,654	\$1,640,654	\$1,640,654	\$1,640,654
2017	\$1,851,846	\$1,814,501	\$1,905,251	\$1,862,215
2018	\$2,183,460	\$2,322,078	\$2,218,210	\$2,152,887
2019	\$2,491,876	\$2,602,864	\$2,502,428	\$2,435,034
2020	\$2,790,066	\$2,882,919	\$2,762,412	\$2,696,951
2021	\$3,096,080	\$3,119,814	\$2,993,061	\$2,933,868
2022	\$3,421,778	\$3,356,539	\$3,209,829	\$3,159,740
2023	\$3,743,941	\$3,570,726	\$3,418,428	\$3,381,793
2024	\$4,060,974	\$3,761,140	\$3,619,057	\$3,597,312
2025	\$4,374,378	\$3,938,838	\$3,810,448	\$3,805,542
5-Year Total	\$10,957,903	\$11,263,018	\$11,028,955	\$10,887,741
10-Year Total	\$29,655,054	\$29,010,075	\$28,079,779	\$27,765,797

Projected Additions to Reserved Principal

Reserved Oil Revenue plus Appropriations

- Each of the proposals eliminates the annual “inflation proofing” appropriation to Reserved Principal.
- Status Quo preserves this tradition.
- This allows the proposals to make larger distributions from the Fund while still maintaining a relatively healthy Earnings Reserve balance.
- All three proposals still contribute 25% of oil royalties to Reserved Principal each year.



Additions to Reserved Principal	Status Quo	SB128/HB245	SB114/HB303	HB224
2016	\$334,679	\$334,679	\$334,679	\$334,679
2017	\$1,215,819	\$272,399	\$272,399	\$272,399
2018	\$1,278,538	\$302,037	\$302,037	\$302,037
2019	\$1,335,509	\$325,541	\$325,541	\$325,541
2020	\$1,351,895	\$314,155	\$314,155	\$314,155
2021	\$1,388,078	\$317,292	\$317,292	\$317,292
2022	\$1,397,643	\$300,842	\$300,842	\$300,842
2023	\$1,408,572	\$282,176	\$282,176	\$282,176
2024	\$1,419,852	\$266,870	\$266,870	\$266,870
2025	\$1,433,414	\$251,549	\$251,549	\$251,549
5-Year Total	\$5,516,240	\$1,548,810	\$1,548,810	\$1,548,810
10-Year Total	\$12,559,799	\$2,967,641	\$2,967,641	\$2,967,641

Deterministic versus Stochastic Results

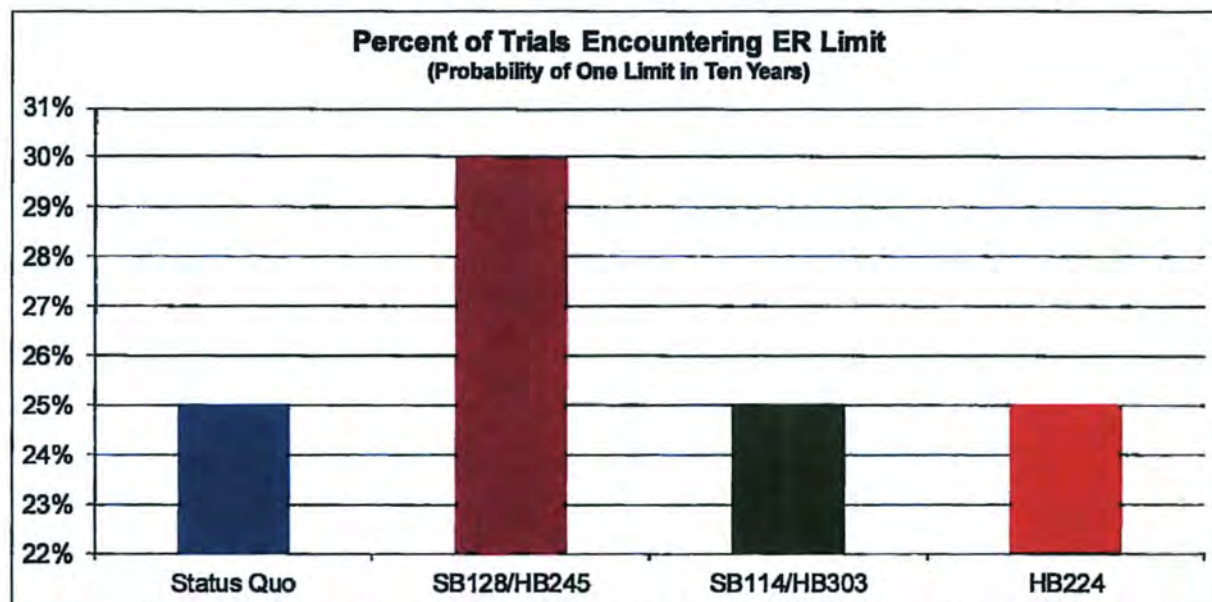
Introducing Volatility

- All of the results so far have assumed median capital market outcomes.
- 10 years of earning exactly the same return with exactly the same inflation level is unrealistic and masks the potential impact of volatility on the system.
- Monte Carlo simulation allows us to explore 1,000's of different capital market outcomes, each with a reasonable level of volatility, and understand the range of potential outcomes.
- I will present a brief demonstration at the meeting to illustrate some of the capital market paths so that Board members can get a feel for how the process works.
- Three variables are used to evaluate and understand the differences between the proposals in the context of market volatility:
 - Ending Real Market Value after ten years.
 - Cumulative Distributions over ten years.
 - The probability of the Earnings Reserve limiting the planned distribution in any one year.

Probability of Encountering an Earnings Reserve Limitation

Inflation Adjusted Market Value

- The Earnings Reserve Account can place a limit on distributions if the cumulative effect of distributions, appropriations, and realized and unrealized losses reduces its balance below that of the planned distribution.
- The legislative proposals are not significantly more likely to hit up against a limitation than the Status Quo.
- This shows the probability of hitting a single limit in 10 years.
- In worse-case outcomes distributions can be limited in multiple years.



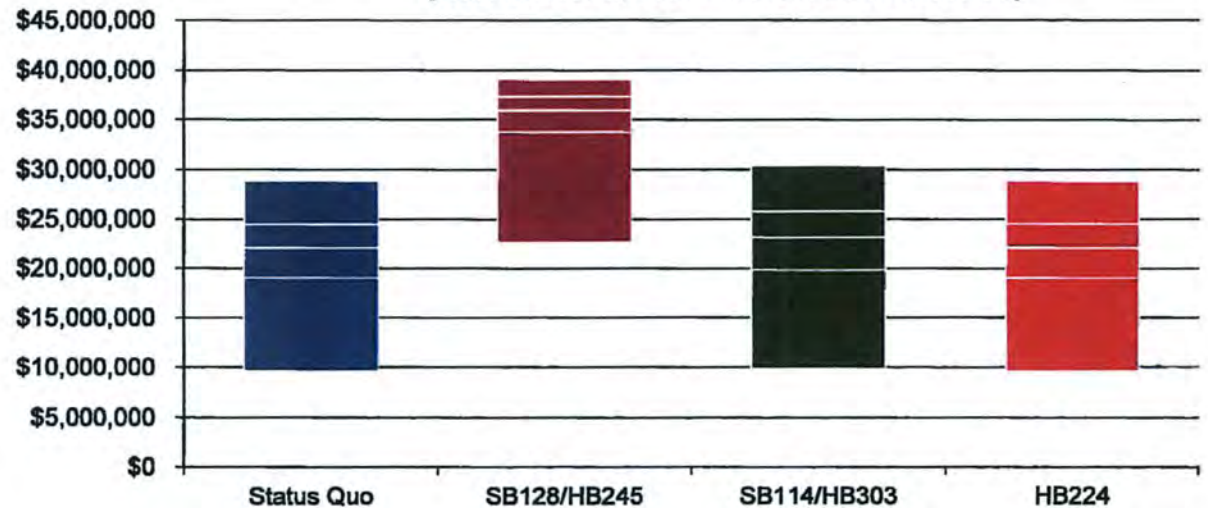
Probability of Hitting an ER Limit	Status Quo	SB128/HB245	SB114/HB303	HB224
Percent Probability	25%	30%	25%	25%

Range of Cumulative Distributions through 2025

Nominal Dollars

- All of the proposals result in higher cumulative distributions under most circumstances relative to Status Quo.
- The big gap between 75th percentile and 90th percentile represents the impact of the Earnings Reserve limitation
- The range of results between SB114 and HB224 in this dimension is relatively small.
- SB128 generates higher distributions in most cases.
 - Baseline distributions to Government Fund are higher;
 - Earnings Reserve Account receives additional oil revenue of approximately \$1.2 billion annually.

Range of Cumulative Distributions through 2025
(Total Distributions, Government Fund and Dividend Fund)



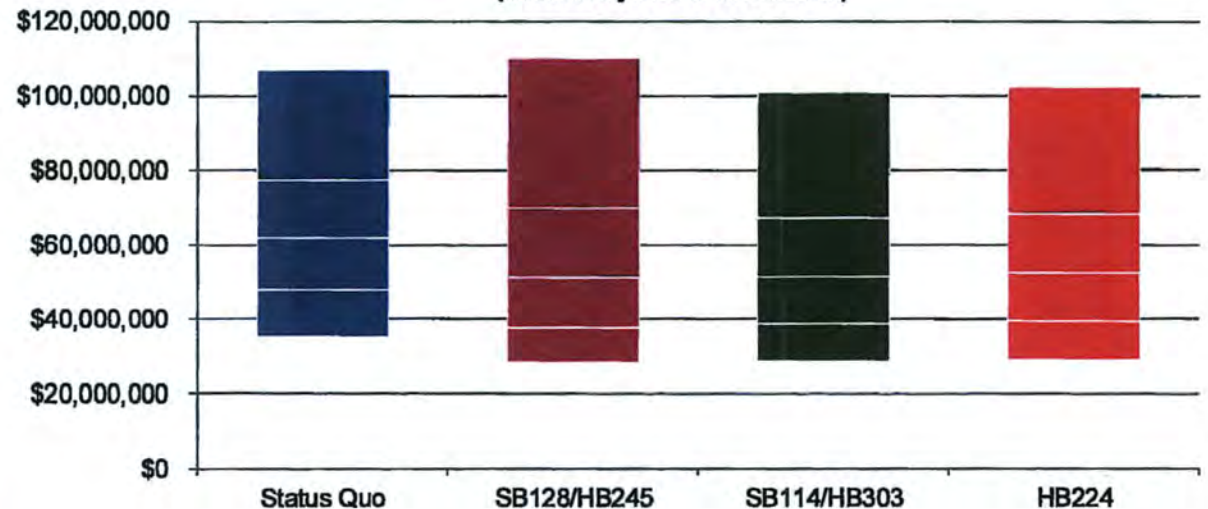
Cumulative 10-Year Distributions	Status Quo	SB128/HB245	SB114/HB303	HB224
5th Percentile	\$29,105,713	\$39,113,299	\$30,452,479	\$28,886,662
25th Percentile	\$19,753,057	\$37,355,976	\$25,811,075	\$24,488,751
Median	\$14,487,974	\$35,943,879	\$23,103,842	\$22,034,081
75th Percentile	\$9,762,045	\$33,756,625	\$19,815,913	\$19,007,454
95th Percentile	\$4,431,591	\$22,541,113	\$9,798,988	\$9,563,227

Range of Ending Real Market Value, 2025

Inflation Adjusted Market Value

- Relative to FY 2015 Ending Market Value of \$52.8 billion, Status Quo and HB224 have highest probability of preserving or growing real market value.
- Differences between the three legislative proposals are relatively small in this dimension.
- SB128 has the highest upside due to the fact that contributions can only grow by inflation even during strong sustained bull market environments.
- Distributions for all other approaches are based on past market returns.

Range of 2025 Real Ending Market Value
(Inflation Adjusted to 2015 Dollars)



Real Ending Market Value	Status Quo	SB128/245	SB114/303	HB224
5th Percentile	\$106,683,281	\$110,017,638	\$100,950,717	\$102,332,621
25th Percentile	\$77,514,675	\$69,962,189	\$67,325,268	\$68,399,378
Median	\$61,660,630	\$50,850,570	\$51,381,837	\$52,367,652
75th Percentile	\$47,916,210	\$37,771,110	\$38,617,291	\$39,285,737
95th Percentile	\$35,168,091	\$28,165,335	\$28,500,577	\$29,012,994

Reducing the Deficit: Investing Alaska's Vast Cash Reserves



Senate Bill 114

Senator Lesil McGuire

Senate State Affairs

2/23/16

A Path Forward

We need a plan to address the problem

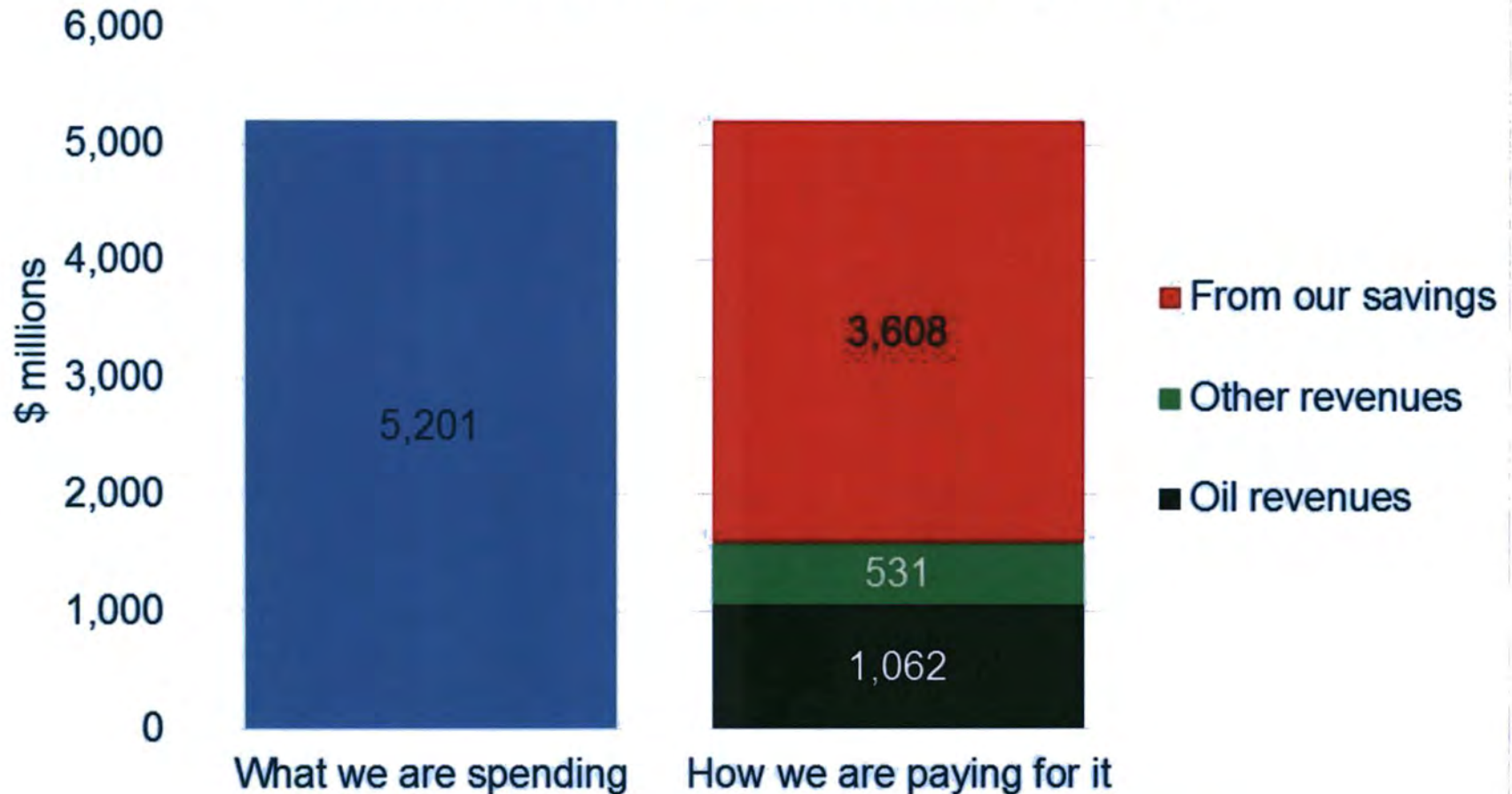
In crafting SB114 I had these principles in mind:

The solution needed to:

- 1) Retain a dividend
 - a) Without making the dividend dependent on the size of state spending
- 2) Reduce the volatility in the state budget
- 3) To clearly expose the size and cost of government
 - so that downward pressure would ensure that Alaskans could begin an honest assessment of needs vs. wants
- 4) Be enduring to allow maximum use of our wealth over generations so that benefits and burdens are shared
- 5) Be Simple and Easy to implement

Defining the Problem

Alaska's Fiscal Situation This Year (FY16)

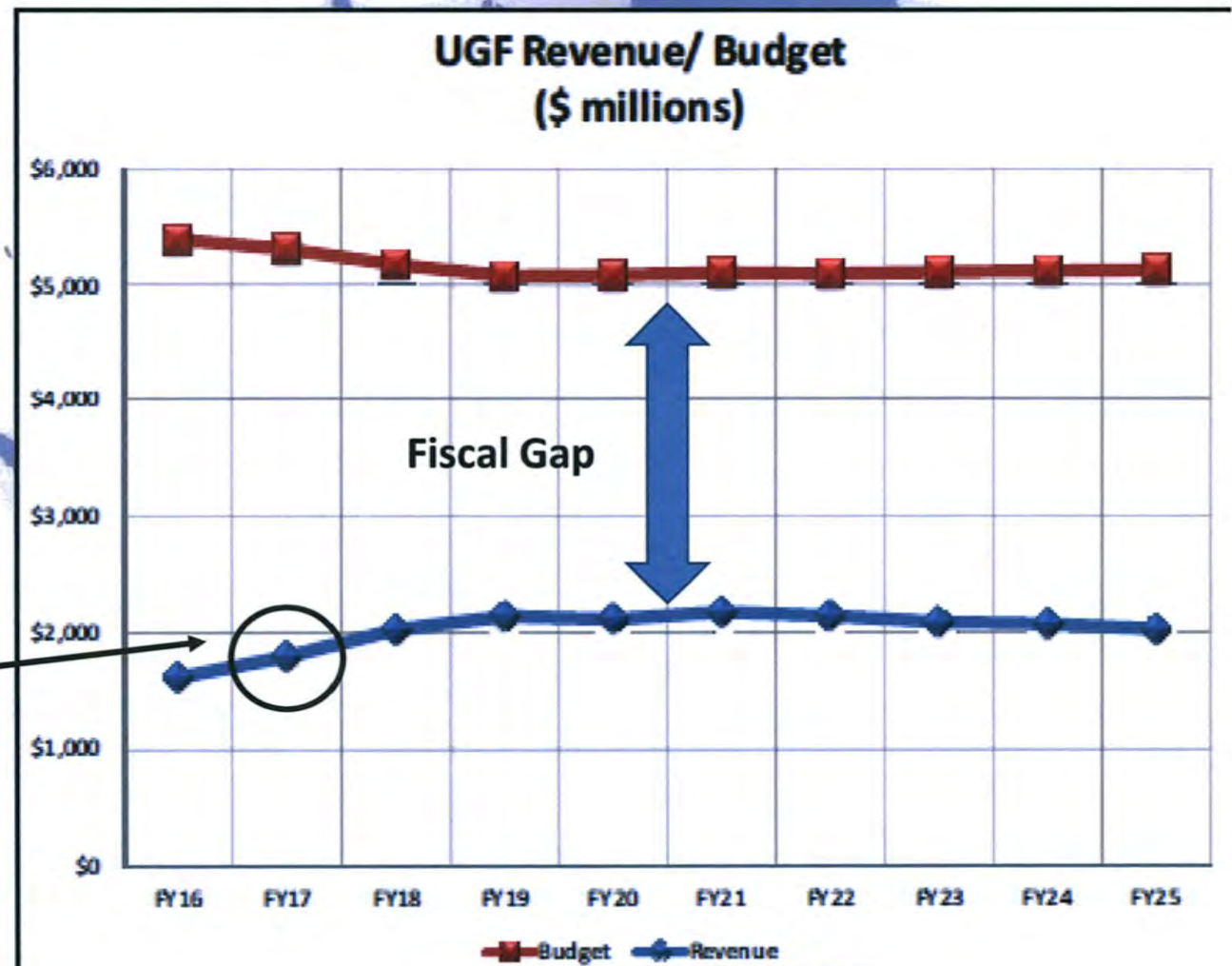


Defining the Problem

UGF for FY17 (status Quo)

Royalties \$800M
Production Taxes \$200M
Other Taxes \$800M

Total \$1.8 B



Other Options?

3 Proposals have been introduced to the Legislature

- **SB128 - Annuity Model**
- **SB114 – 5% POMV**
- **HB224 – 4.5% POMV**

All Use the Permanent Fund Earnings

What else could we do?

Other Options?

- **Constitutional Amendment to access the Corpus of the Permanent Fund?**
- **Requires vote on next General Election**

Other Options?

Reduce spending and Size and Cost of Government to match current Revenues

And
Raise New Revenue?

UGF for FY17 (status Quo)

Royalties	\$800M
Production Taxes	\$200M
Other Taxes	\$800M

Total \$1,800 M

Potential New Revenue from Sustainable Alaska Plan

Total \$457M

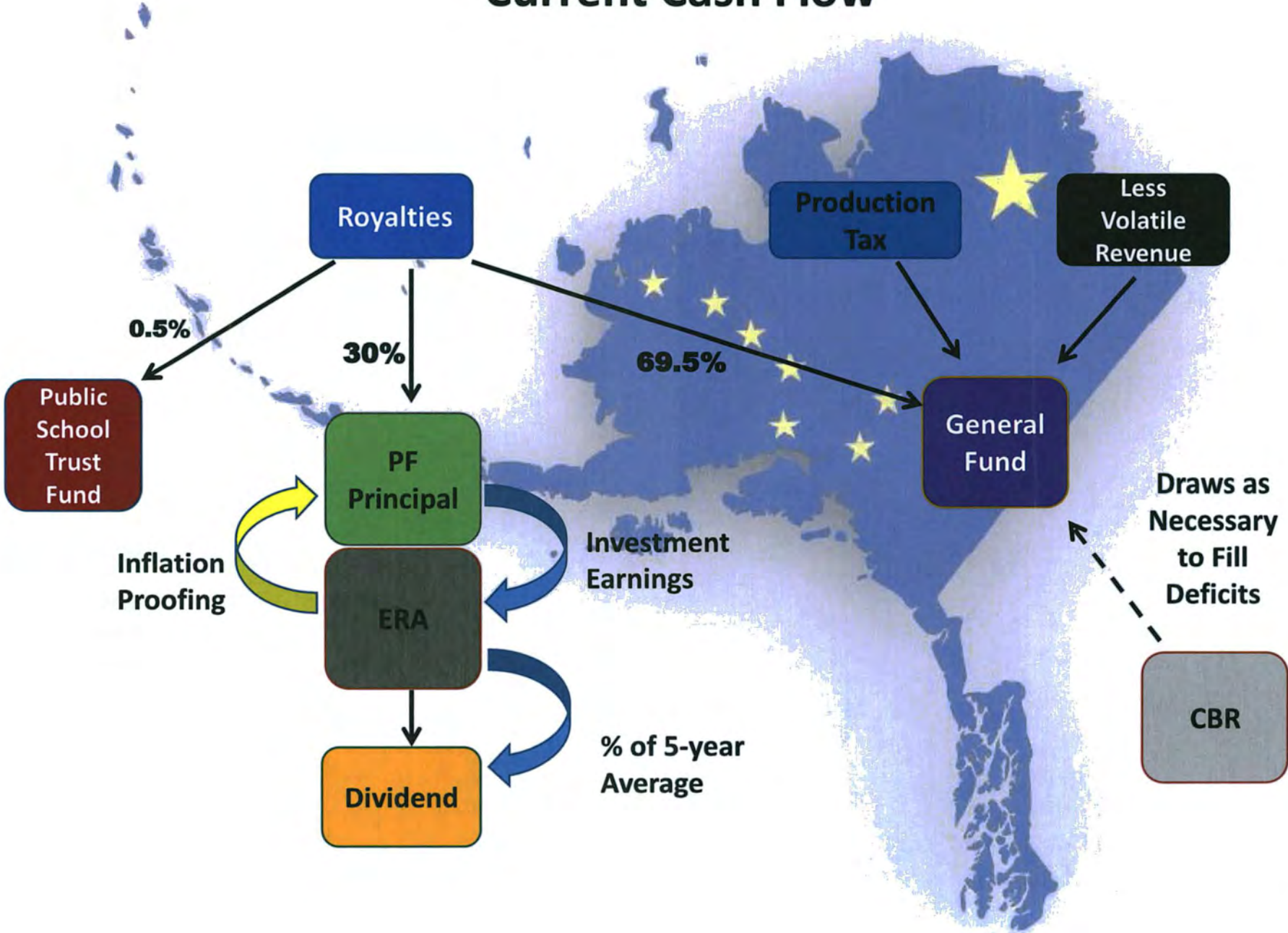
Total= \$2,257M

\$3,000M in Cuts

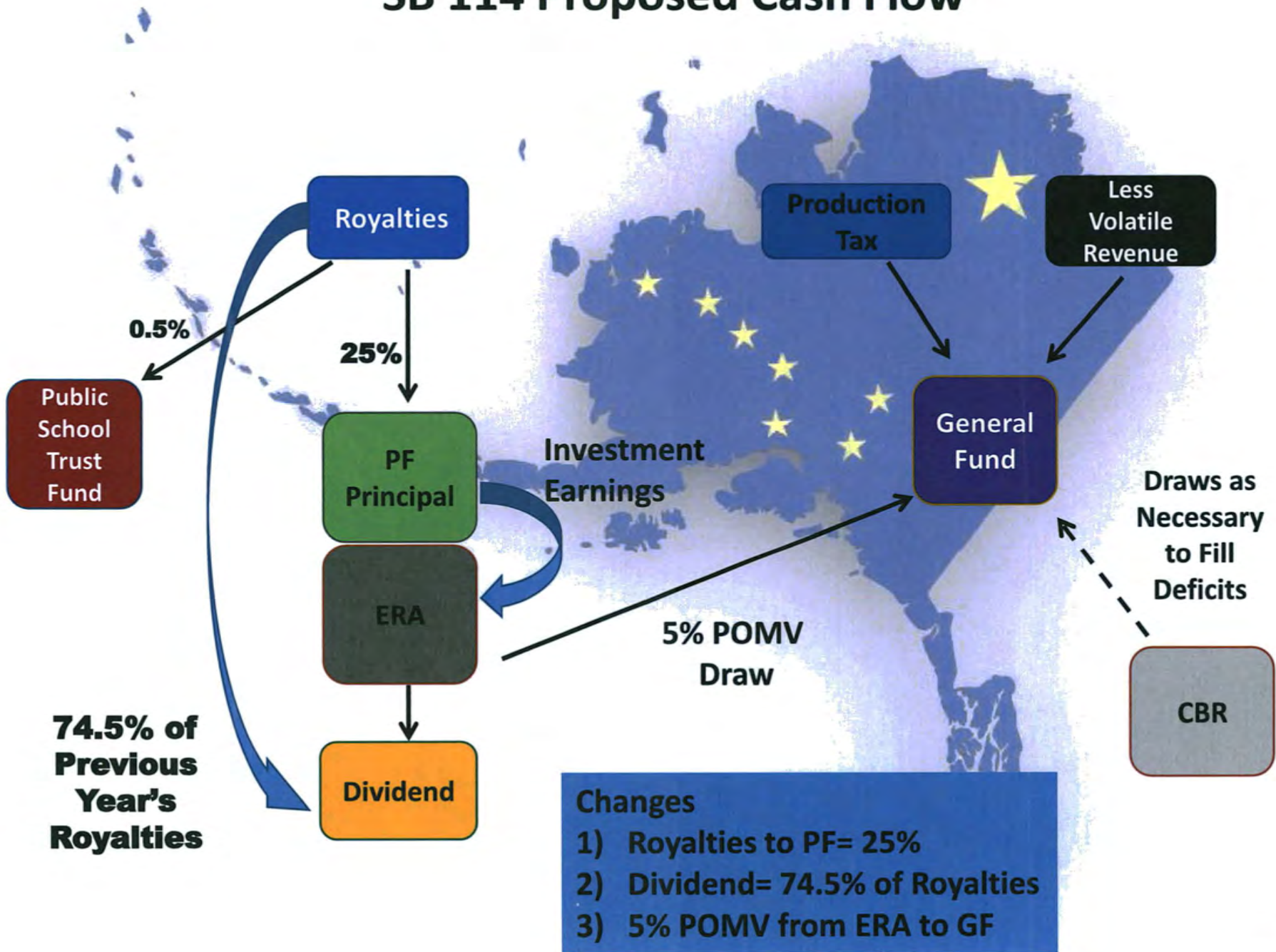
Other Options?

- **All 3 Proposals have been vetted in the Callan Report to the APFC Board**
 - **Which analyzed the impact of the proposals to the Permanent Fund**
- **All 3 proposals:**
 - **Callan does not recommend needing major asset reallocations for the PF**
 - **Though it is something for the APFC to look at**
 - **The Fund should remain viable**

Current Cash Flow



SB 114 Proposed Cash Flow



SB 114 Dividend and GF Scenarios

Scenario 1

Oct 2016 Dividend at Status Quo

Dividend= \$2,000
POMV (net increase)= \$1,269.3 Million

- This Cuts the Deficit by 1/3

Scenario 2

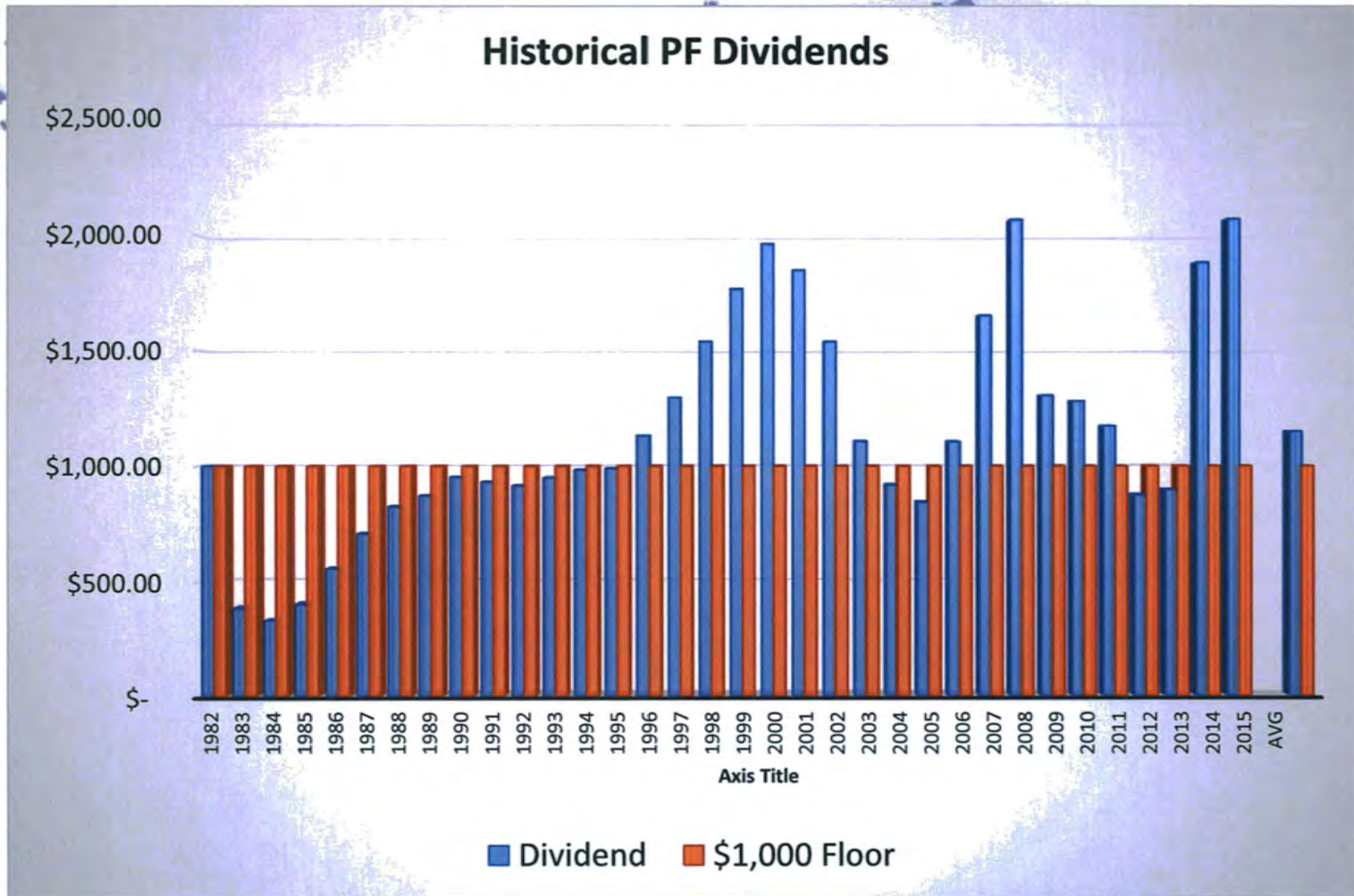
2016 Royalties Swap Occurs

Dividend= \$1,023
POMV (net increase)= \$1958.4 Million

- This Cuts the Deficit in HALF

Difference: \$700 Million

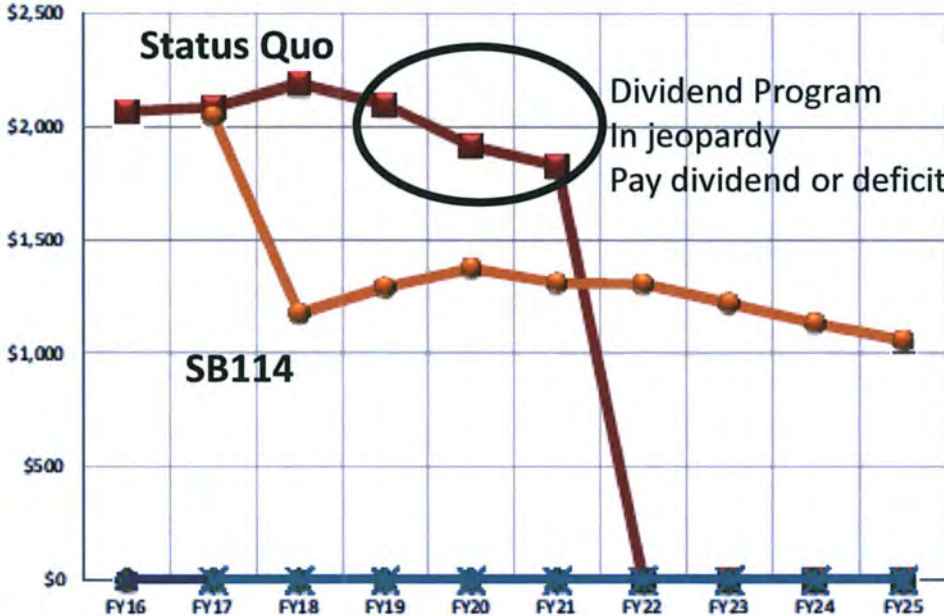
SB 114 Dividend



34 Dividends have been paid
18 Have been \$1,000 or less
16 Have been greater than \$1,000

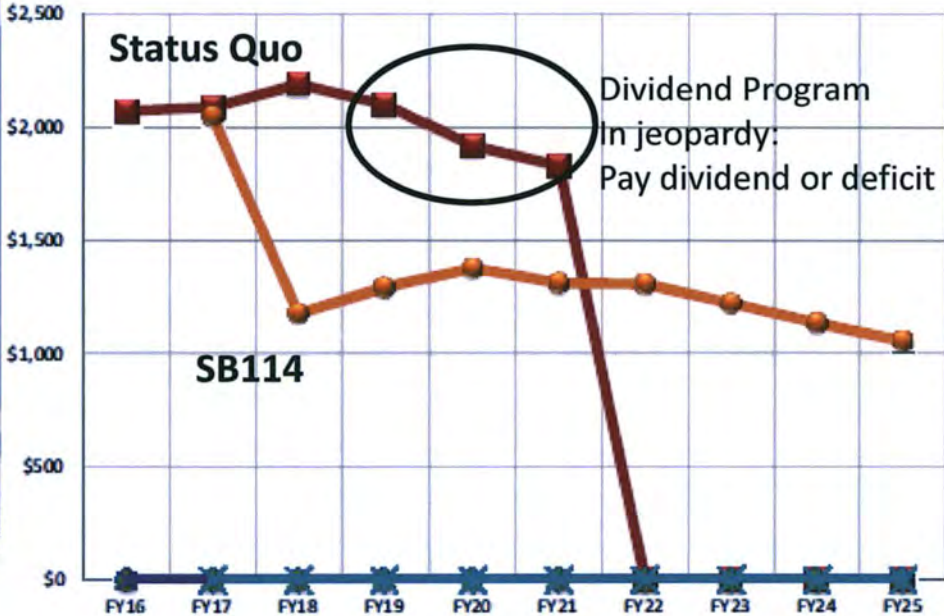
SB 114 Dividend

Dividend Check



Scenario 1
Dividend held harmless

Dividend Check



Scenario 2
Swap occurs in 2016

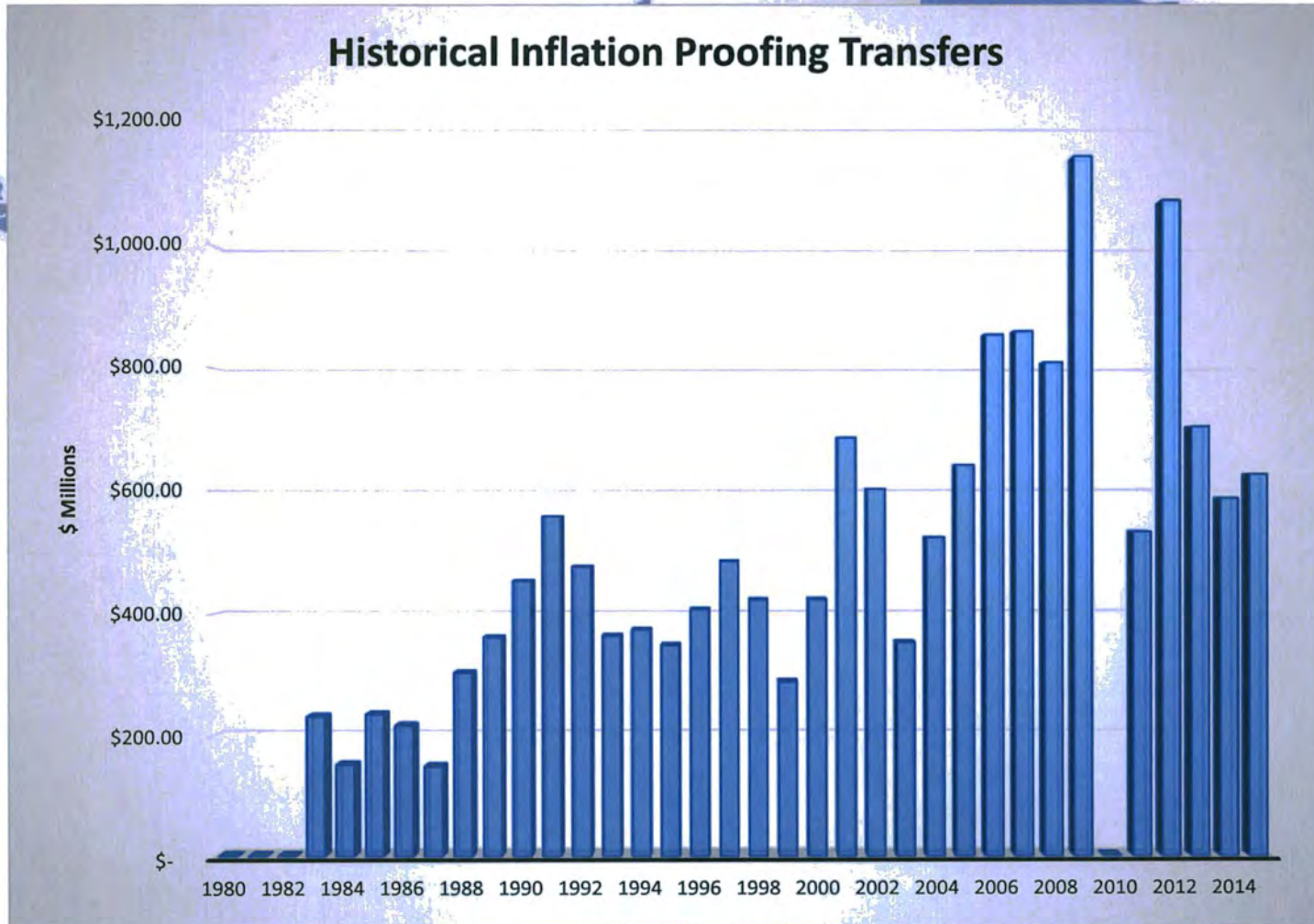
SB114 Guarantees a minimum dividend of \$1,000

Addressing Volatility in POMV

- **POMV is a variable payout**
 - **Volatility arises due to Oil Production Taxes going directly to General Fund**
- **Solution:**
 - **“payout may not exceed x% of prior year appropriations”**
 - **after production taxes, royalties not used for dividends, and other revenue**
 - **“x%” could be “110%” or “120%” = can pick a number**



Addressing Inflation Proofing



Total= \$16,235.5 Million

Addressing Inflation Proofing

Callan's Est. Return on Permanent Fund Investments = 6.9%

POMV Dra = 5%

Remaining in the Earnings Reserve Account = 1.9%

POLICY CALL

Is this sufficient for Inflation Proofing?

Is it considered inflation Proofing when not transferred to Corpus of PF?

Addressing Inflation Proofing

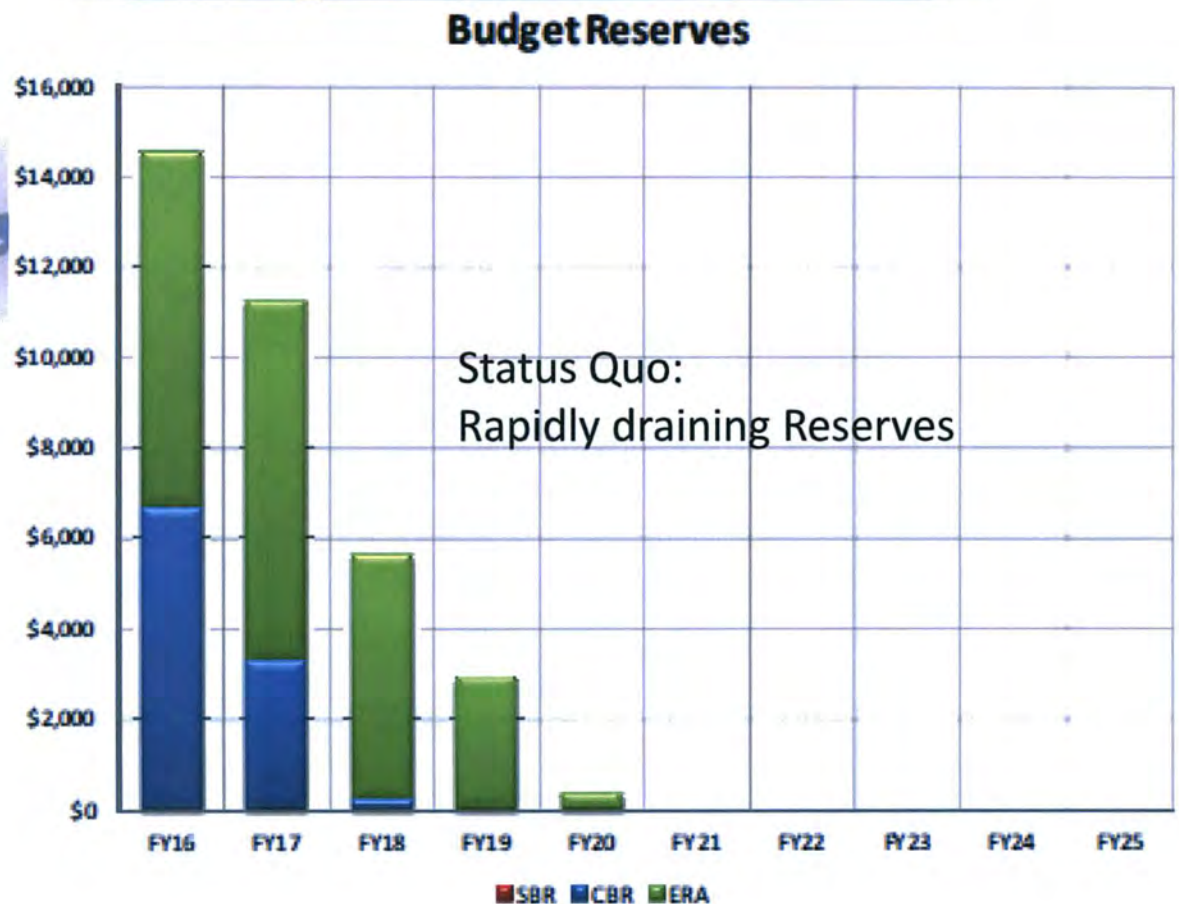
POLICY CALL

Could easily be addressed:

“When total value of the Earnings Reserve Account exceeds the target amount of four (4) times the current year’s transfer, the excess *shall* be transferred to the principle of the fund for inflation proofing.”

The Cost of Doing Nothing/ Status Quo

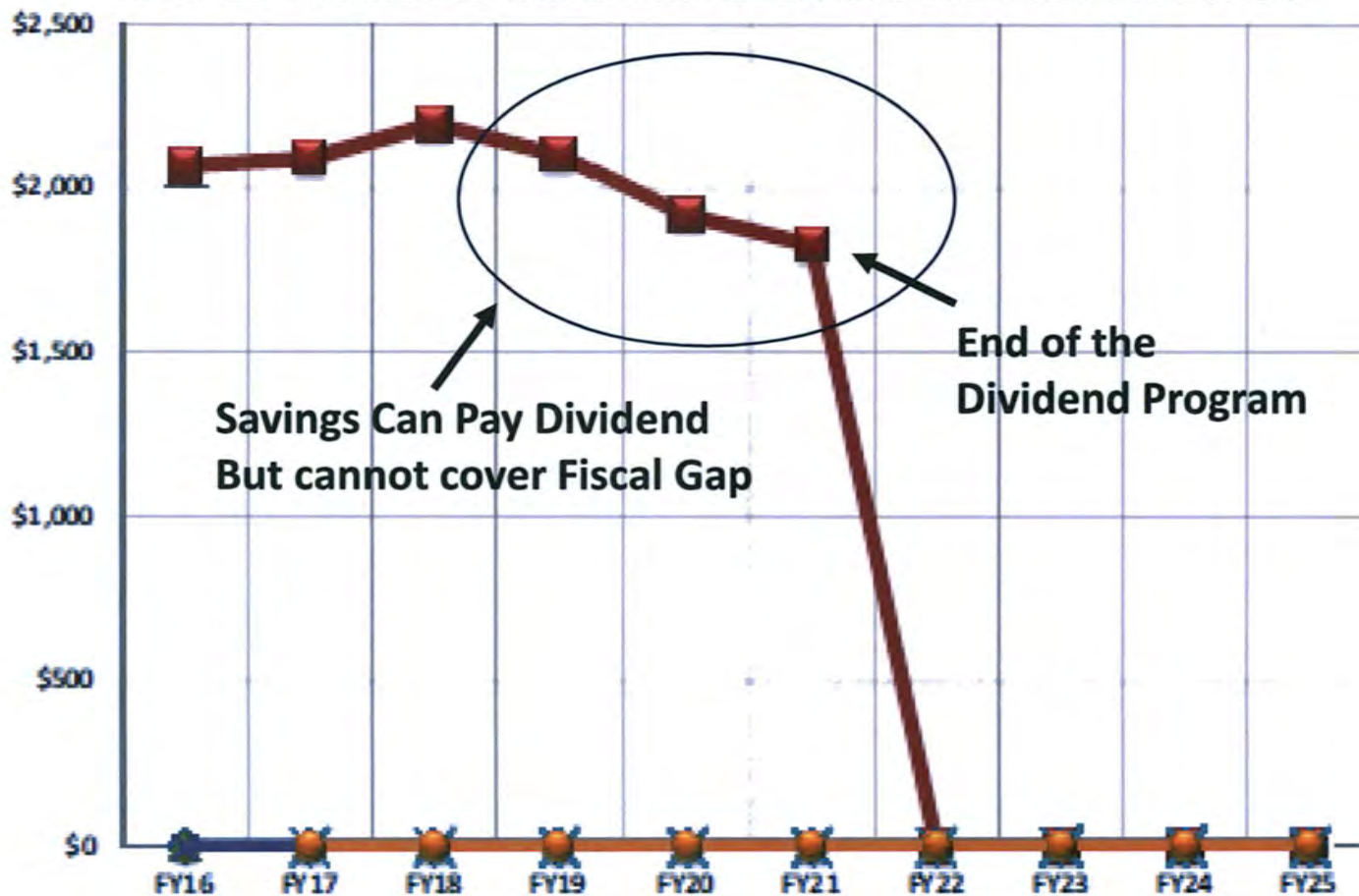
- The longer we wait to act
 - The lower are our reserves
 - The higher the risk of Failure
- A lower reserve balance
 - Simply takes away choices we have to fill the deficit



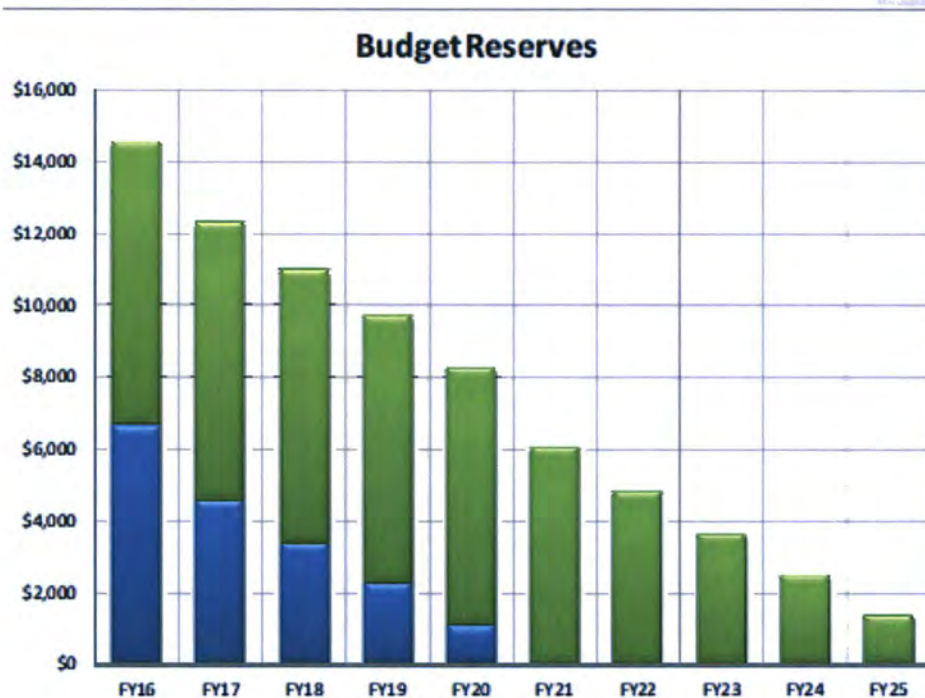
The Cost of Doing Nothing/ Status Quo

Dividend Check

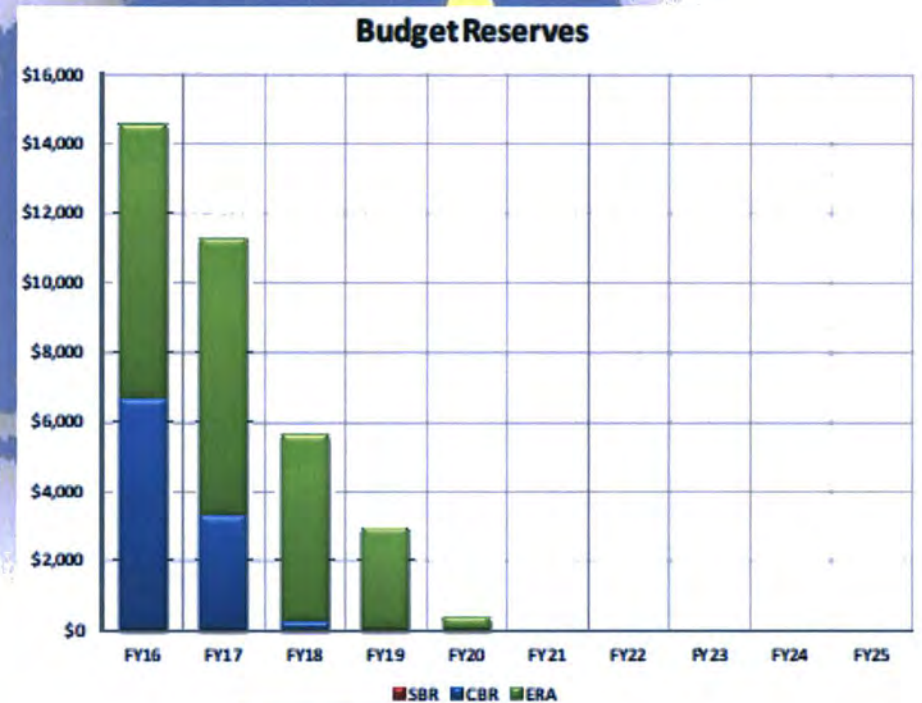
In FY 19 The choice will be made to fund Dividend OR Deficit



The Cost of Doing Nothing/ Status Quo



**SB114
Scenario 1**



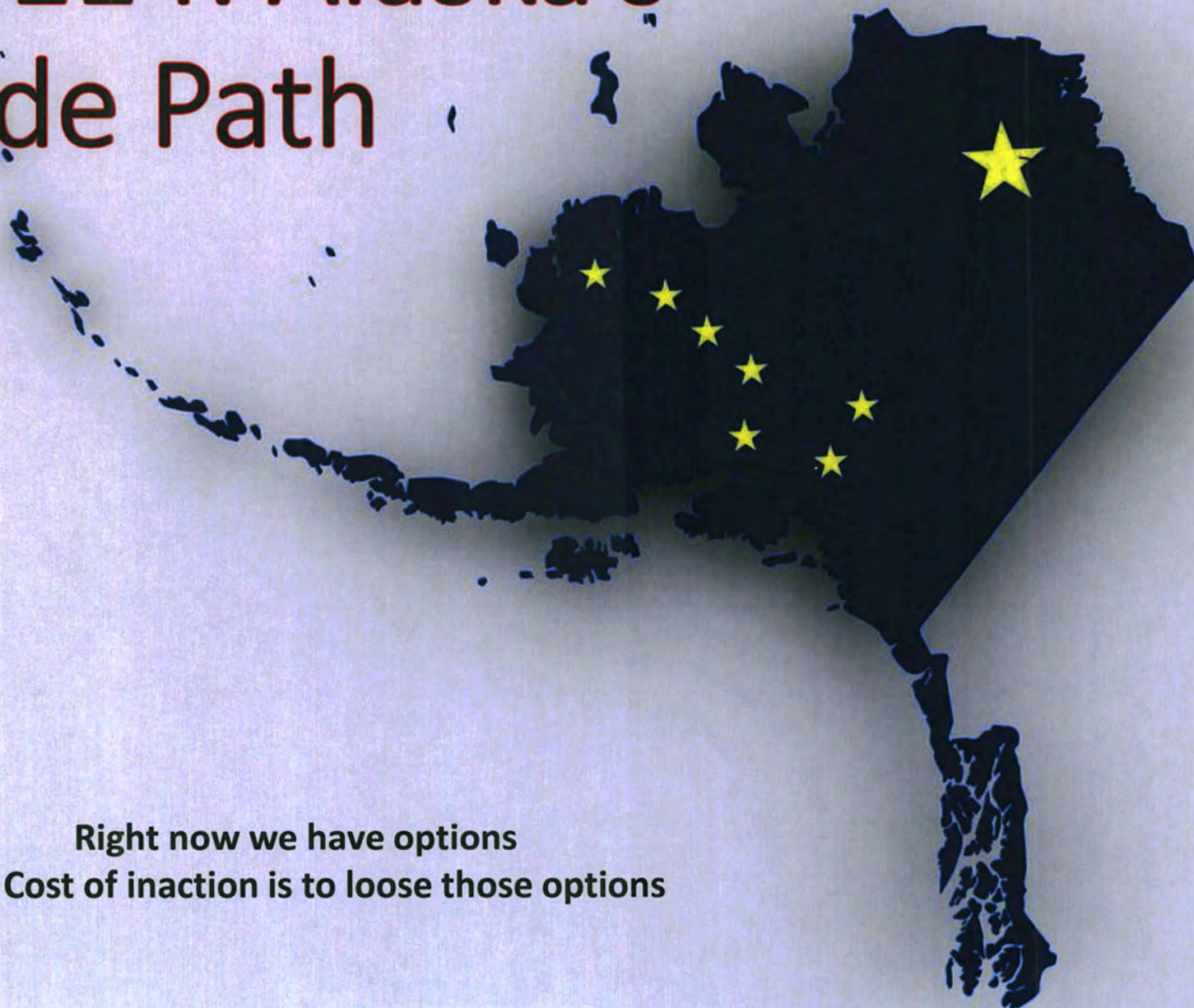
Status Quo

SB 114: The Net Effects



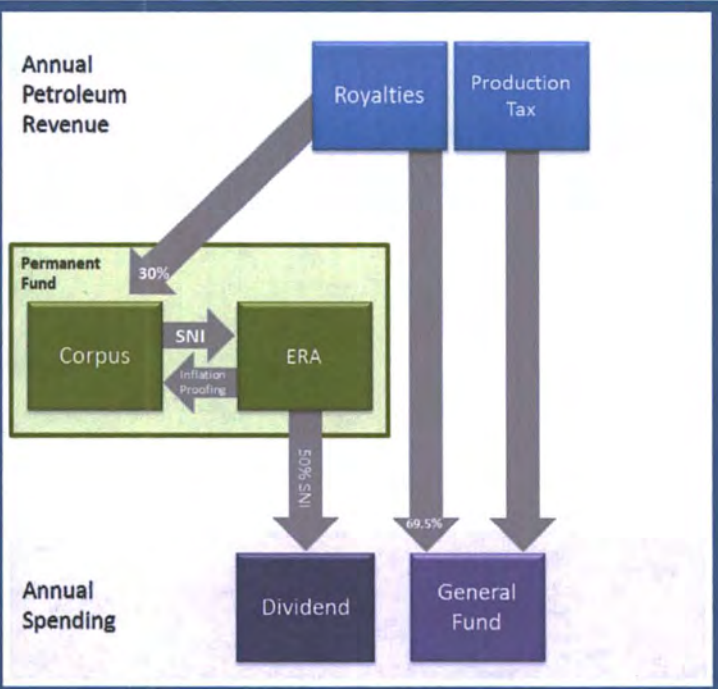
- Adds up to \$2Billion to the General Fund
- Guarantees an annual \$1,000 Dividend (the only proposal to do so)
- Reduces Volatility in the Budget
- Grows the Permanent Fund
- Maintains buying power in the corpus of the Fund
- Maintains downward pressure on state spending

SB 114: Alaska's Glide Path

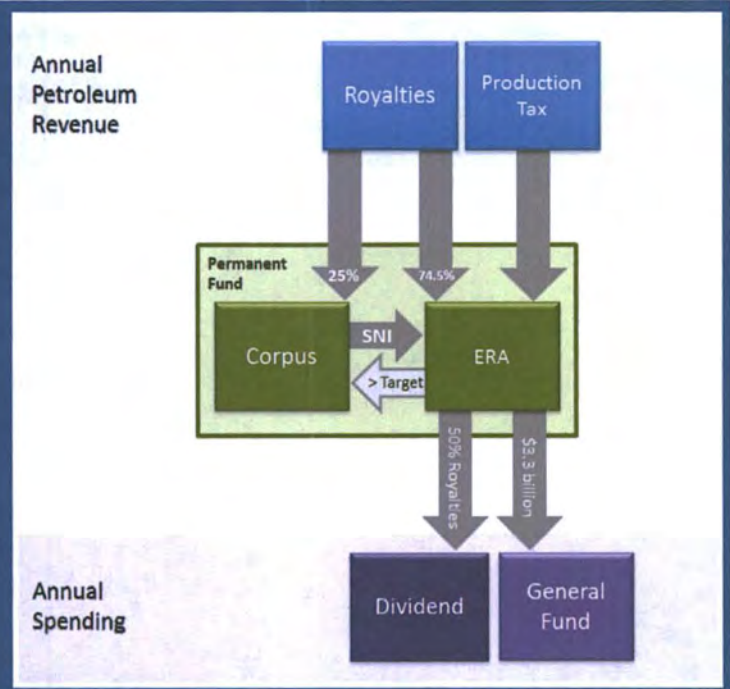


**Right now we have options
The Cost of inaction is to loose those options**

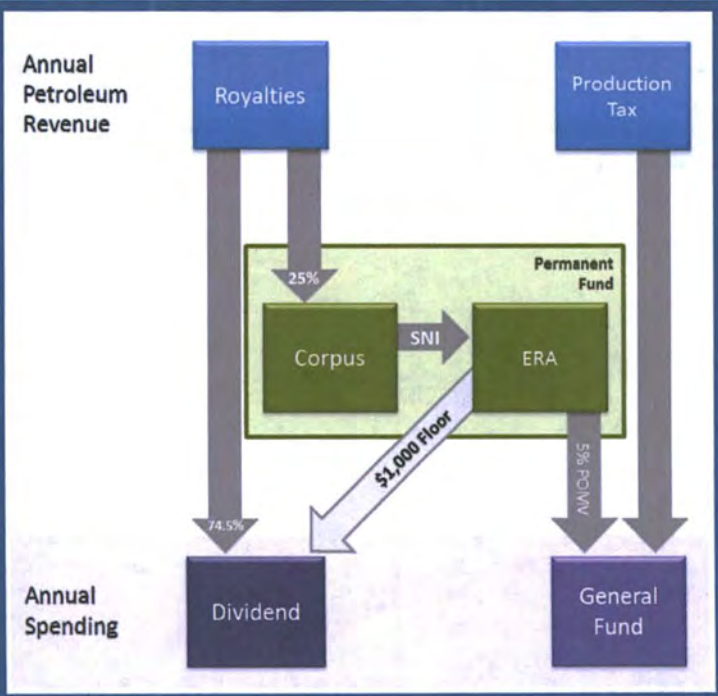
Status Quo



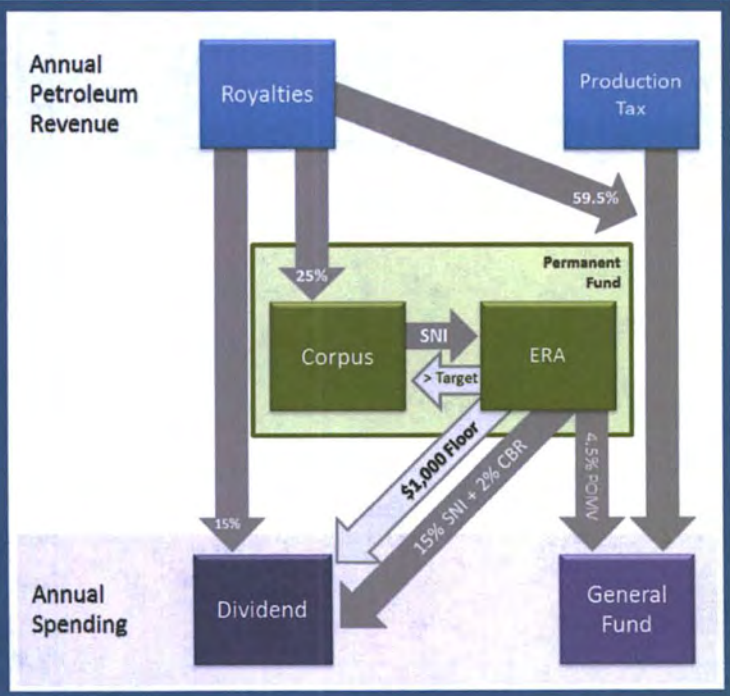
APFPA (SB 128)



SS SB 114



Work Draft CSSS SB 114 (STA) & Am. V.I.



Reducing the Deficit: Investing Alaska's Vast Cash Reserves



CS for SS Senate Bill 114

Senator Lesil McGuire

Senate State Affairs

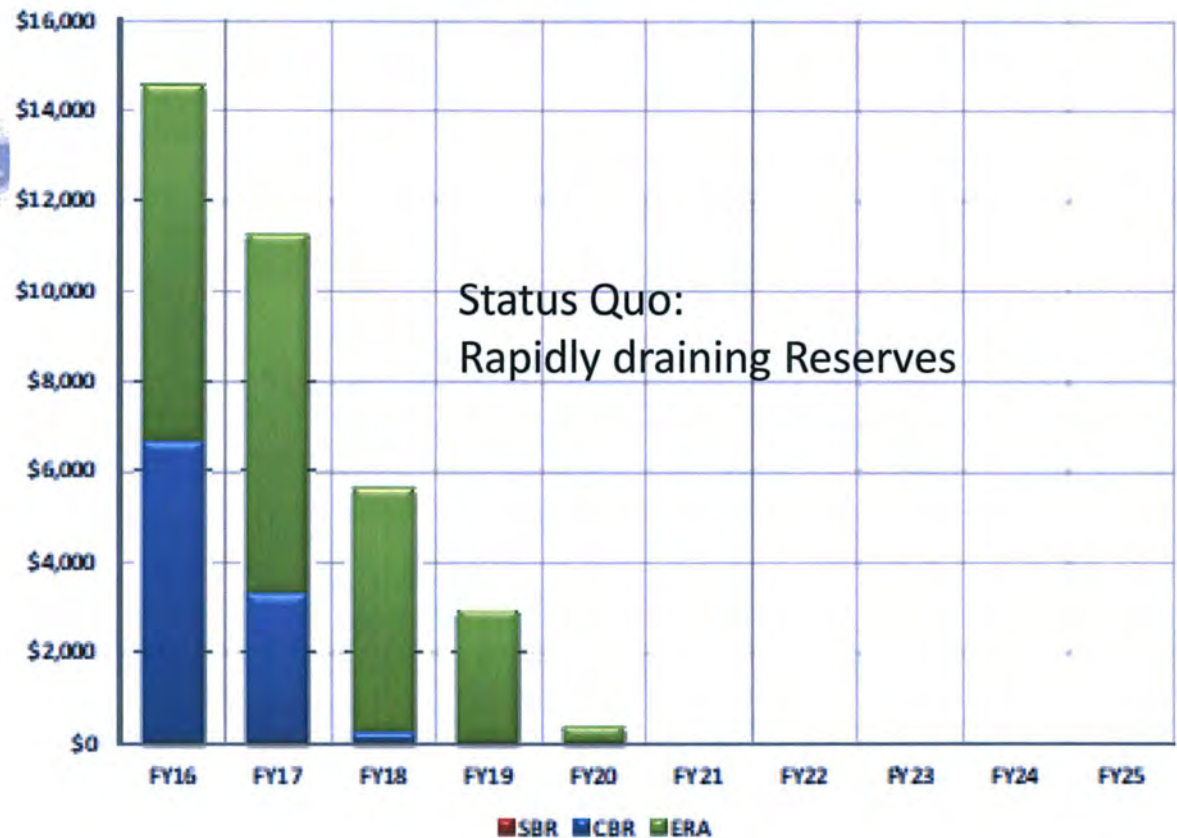
3-15-16

The Cost of Doing Nothing/ Status Quo



- The longer we wait to act
 - The lower are our reserves
 - The higher the risk of Failure
- A lower reserve balance
 - Simply takes away choices we have to fill the deficit

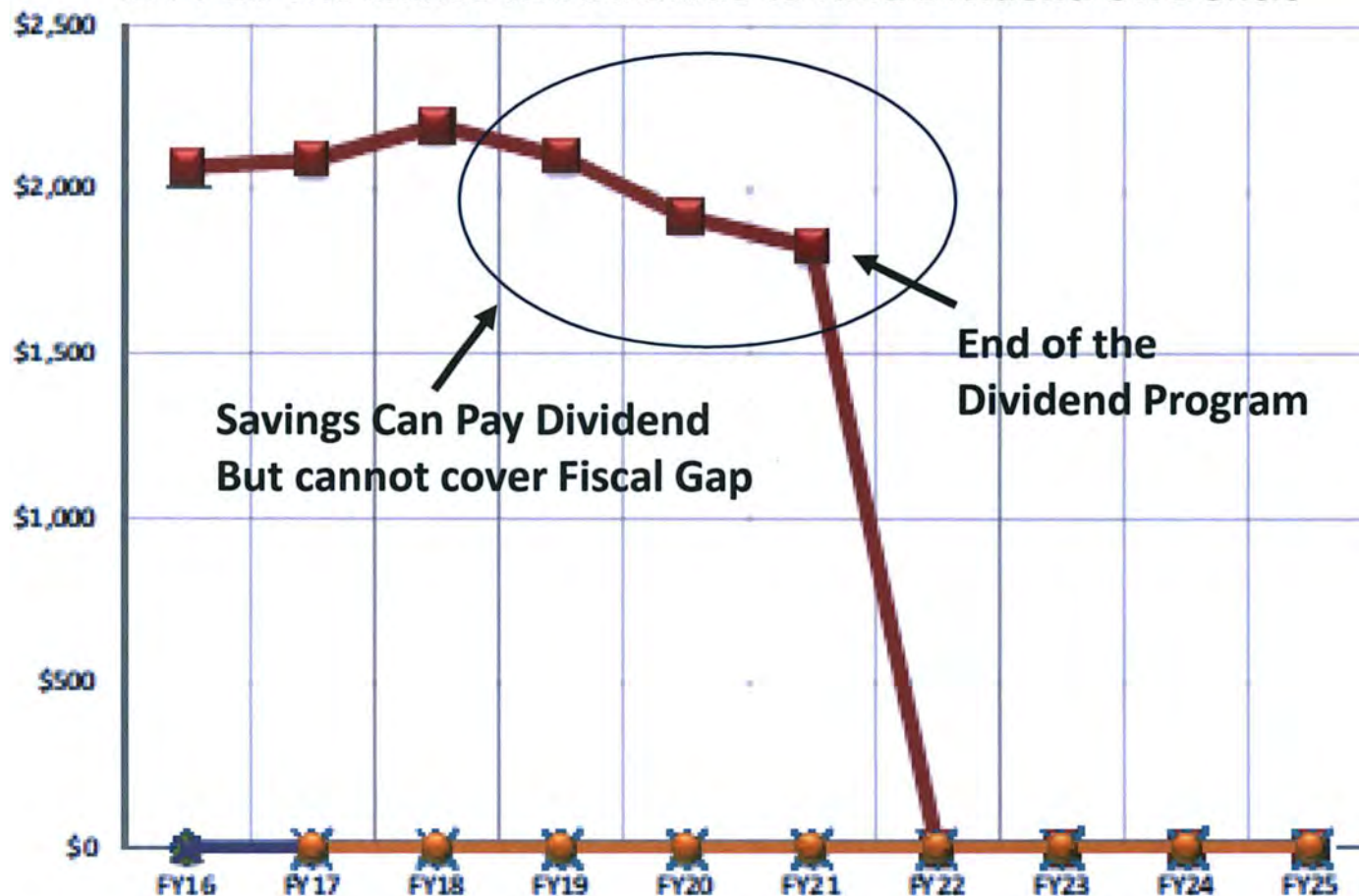
Budget Reserves



The Cost of Doing Nothing/ Status Quo

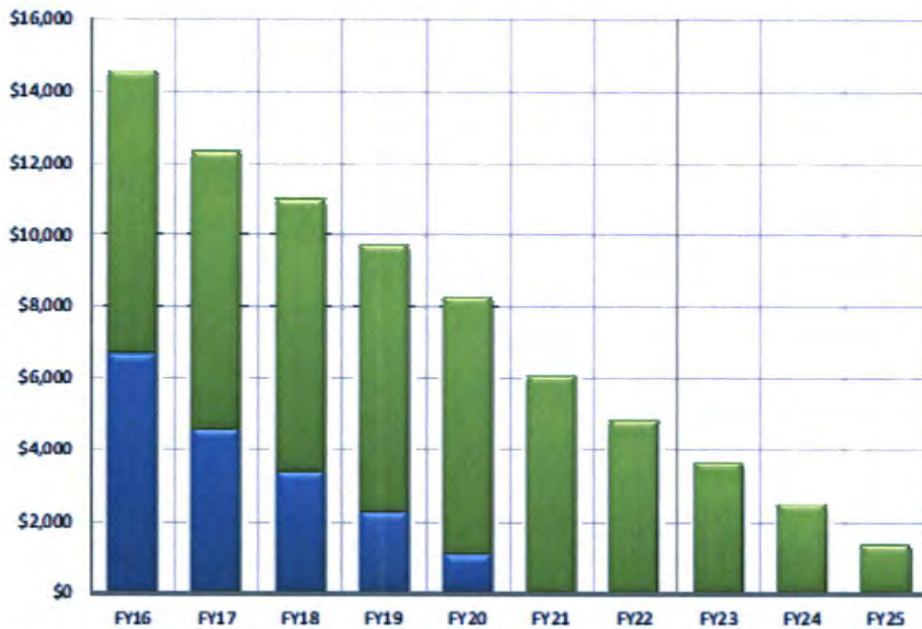
Dividend Check

In FY 19 The choice will be made to fund Dividend OR Deficit



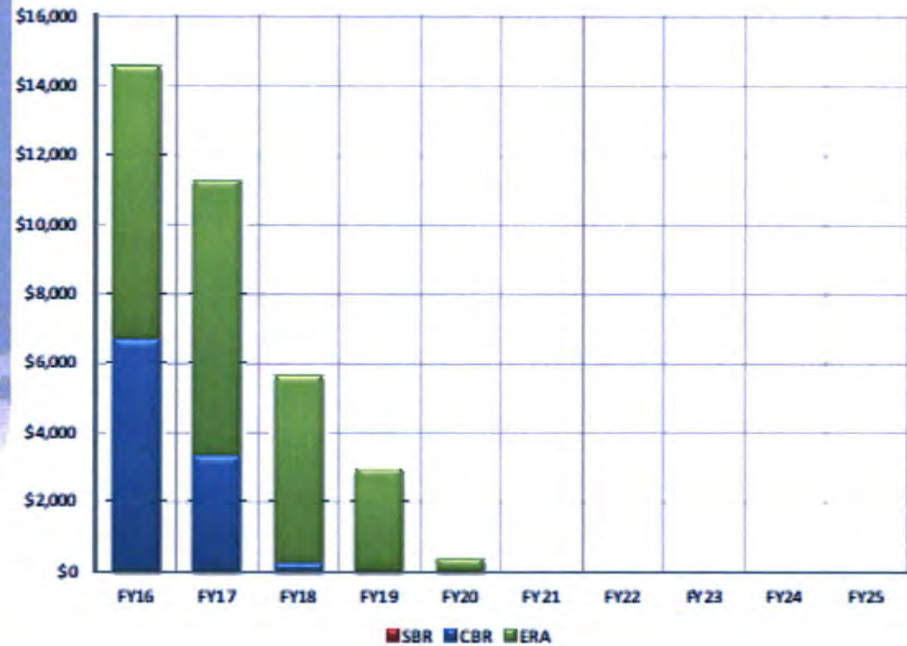
The Cost of Doing Nothing/ Status Quo

Budget Reserves



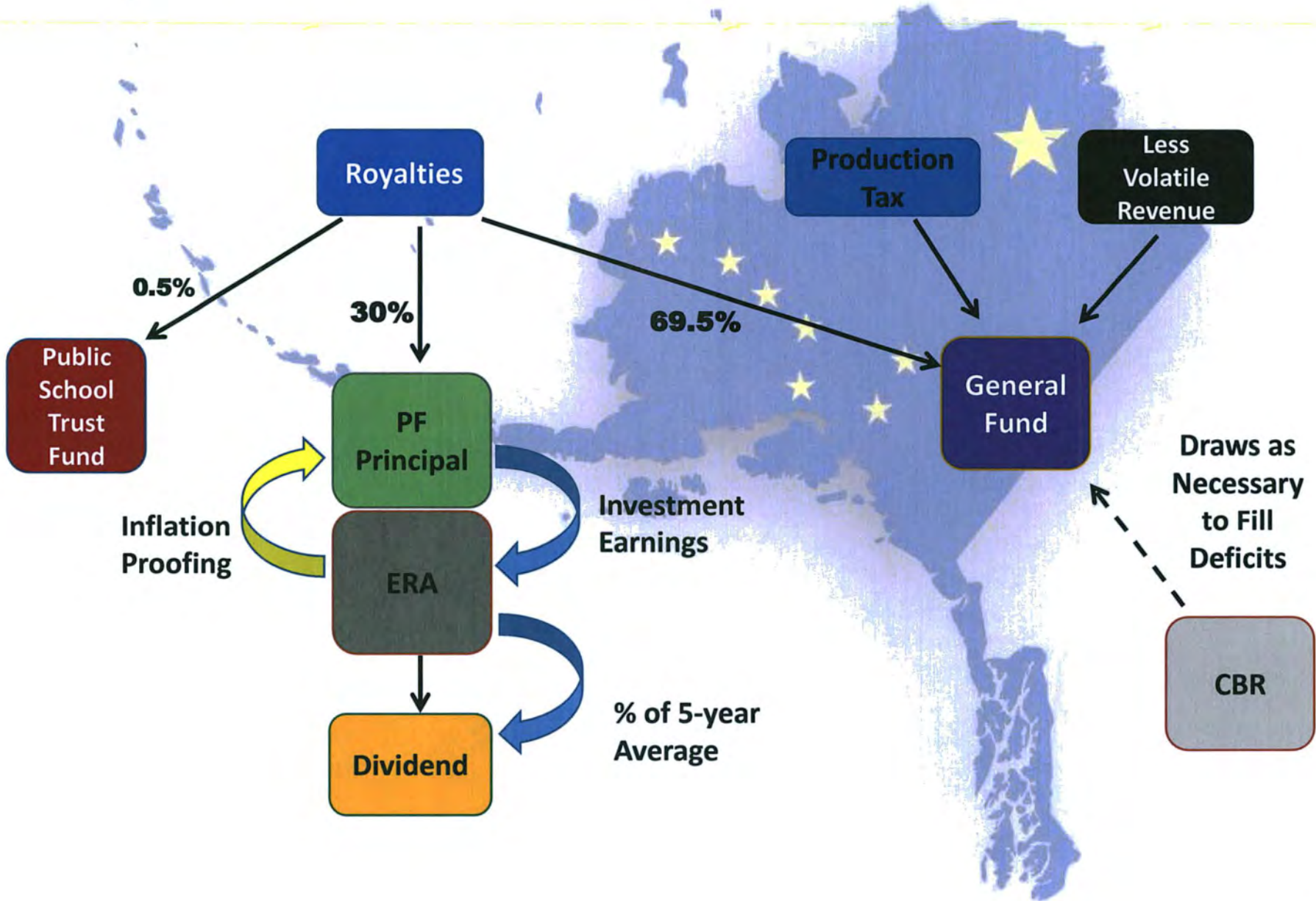
**SB114
Scenario 1**

Budget Reserves

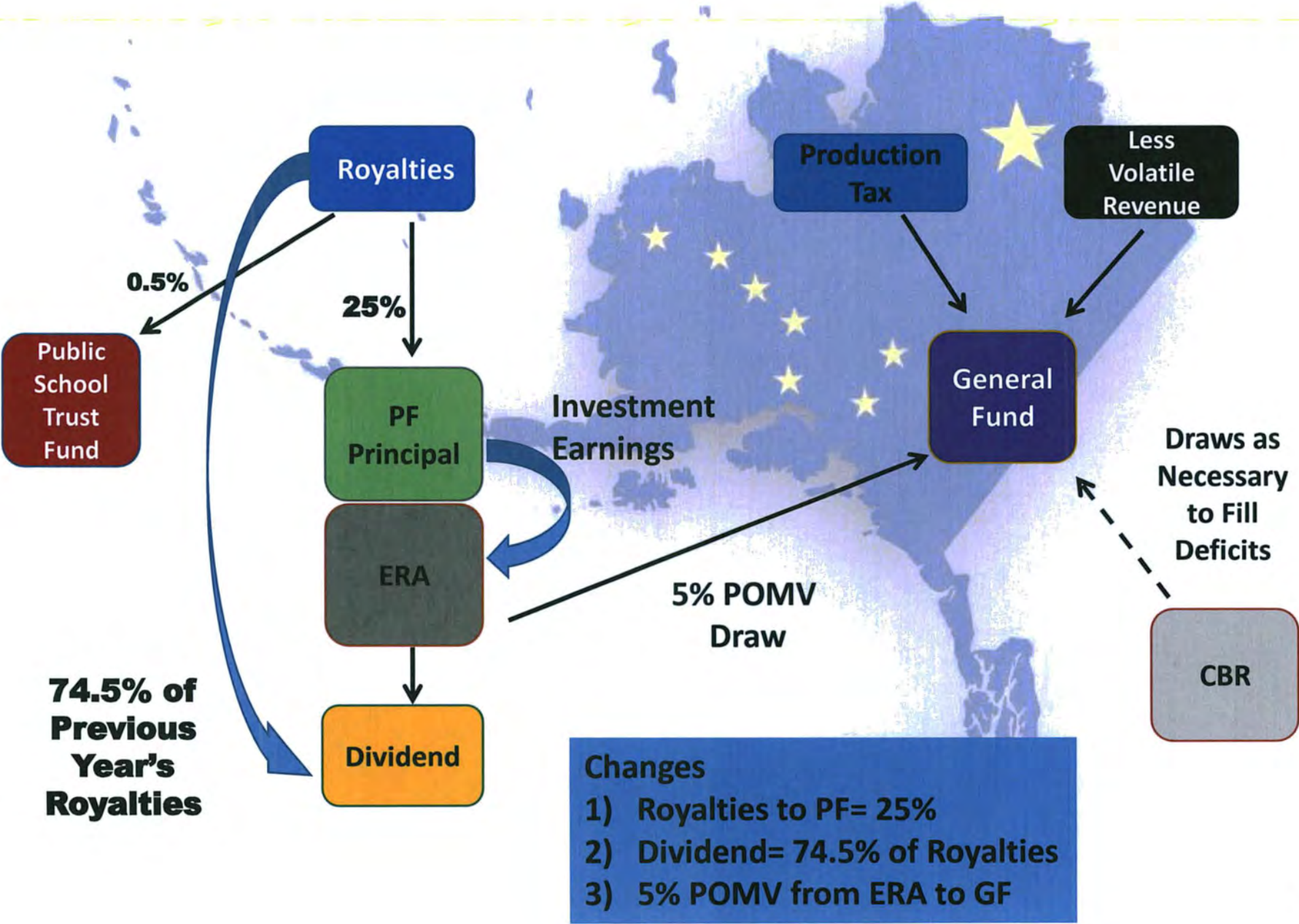


Status Quo

Current Cash Flow



SB 114 Proposed Cash Flow





4 issues identified in SS for SB 114

- 1) 5% vs. 4.5% POMV**
- 2) Inflation Proofing**
- 3) Lack of review oversight**
- 4) Spending Limitations**

POMV Payout 5% vs. 4.5%

Section 3. Page 2, Line 26

Both are standard POMV amounts

5% - greater stress on the balance of the ERA

Advantage= Greater payout in the next few years

**Disadvantage= 1) Less available cash in tight years
2) Slower growth of the PF**

4.5%- Greater stress on the balance of the CBR

Advantage= 1) Slower draw down of ERA- greater rate of PF growth

2) IF PF grows sufficiently, the total payout can be higher sooner than under a 5% mechanism

Disadvantage= Smaller payout in next few years

Addressing Inflation Proofing

Callan's Est. Return on Permanent Fund Investments = 6.9%
POMV Draw = 4.5%
To the Earnings Reserve Account = 2.4%

+

To the Corpus of the Permanent Fund = 25% of Royalties
Total Royalties \$961M * 25% = **\$240M**

Addressing Inflation Proofing

In the CS for consideration inflation proofing is addressed in Section 5. Page 3, Lines 13-23

Inflation proofing amount is calculated by the following:

“multiplying the amount available for distribution for the previous fiscal year under AS 37.13.140(b) by four and subtracting the product of that calculation from the balance of the earnings reserve account on June 30 of the pervious fiscal year.”

i.e.—

If the value of the Earnings Reserve Account is more than 4 times the maximum draw allowed (4.5%), the excess can be transferred into the principle of the Permanent Fund.

This transfer is subject to legislative approval

Review oversight

Section 7. Page 4, Line 23-31

Each year on or before January 30

The commissioner of revenue may consult with the Permanent Fund board and recommend

- **Adjustments to the percentages of money appropriated to the dividend**

Each year on or before January 30

The commissioner of revenue Shall provide a legislative report that:

- **Evaluates the sufficiency of the assets in the ERA**
- **Evaluates the amount projected to be distributed to the General Fund**

Revenue Limitations

Section 3. Pages 2, Line 29 thru Page 3, Line 2

Section 3

Creates a limitation on how much can be drawn from the ERA in the event that oil production taxes are sufficient to balance the budget

“The amount available for distribution may not be less than zero and equals 4.5% of the average market value of the fund, including the ERA, for the five fiscal years immediately preceding the fiscal year just ended, reduced by an amount equal to the production taxes over \$1Billion received in the fiscal year just ended.”

- This improves the sustainability of payouts from the ERA
- Reduces the risk of increasing spending in high years of petroleum revenue
- This reduces the volatility in the budgeting process for UGF expenditures

Revenue Limitations

Section 3. Page 2, Lines 29 thru Page 3, Line 2

- For Oil revenue over \$1B there is a corresponding reduction of the POMV draw

\$ Billions		
Production Taxes (PT)	POMV Draw (4.5%)	PT and POMV Draw
\$0.5	\$2.25	\$2.75
\$1.0	\$2.25	\$3.25
\$2.0	\$1.25	\$3.25
\$3.0	\$0.25	\$3.25
\$3.5	\$0.00	\$3.50
\$4.0	\$0.00	\$4.00
\$5.0	\$0.00	\$5.00

Conclusion/Summary

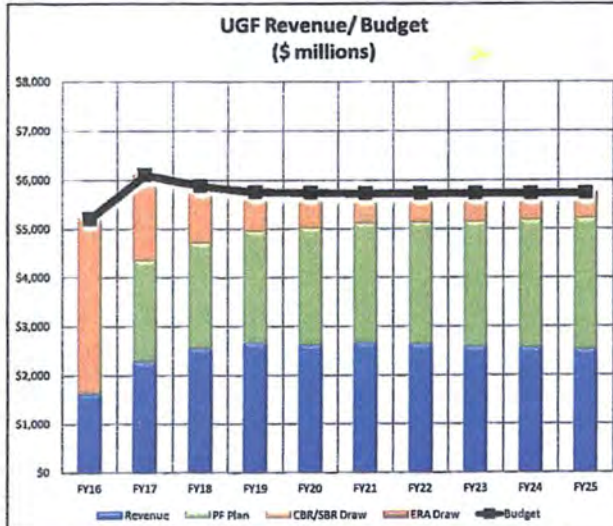
These changes reflect comments and concerns voiced by
Colleagues
Neighbors
The Public

- A 4.5% POMV is more sustainable and puts less pressure on the ERA
- Though a POMV is often viewed as self inflation proofing-
 - It is important to have a specific mechanism layered on top of that to ensure stability to the Permanent Fund corpus
- A review is a simple way to ensure that the mechanisms we put into place are working correctly, and that there is room for adjustments as needed
- The Revenue Limitation provision helps prevent rapid growth and possible contraction of state spending following high oil prices.

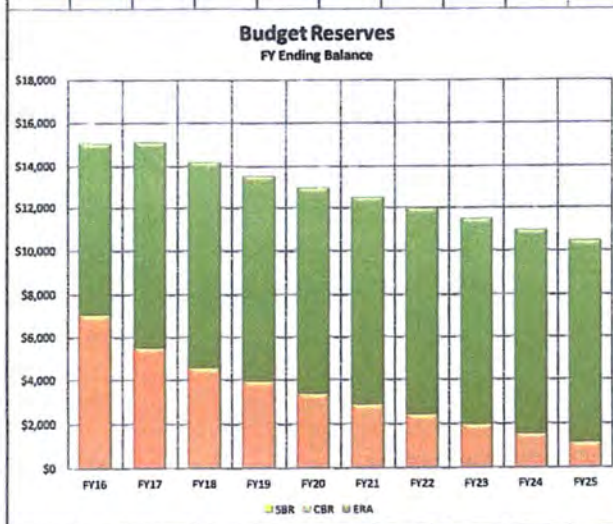
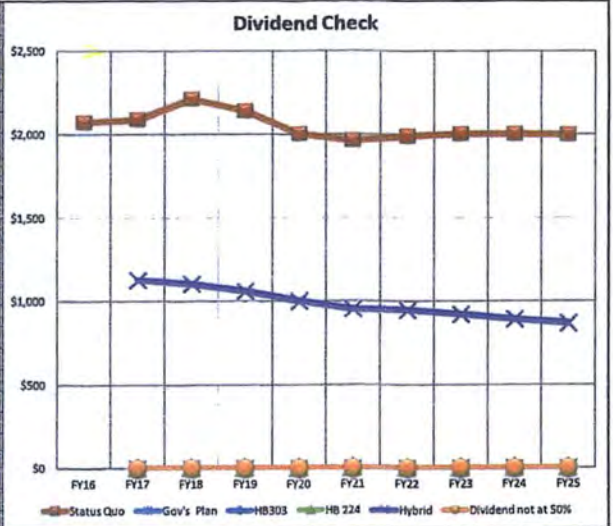
Questions?



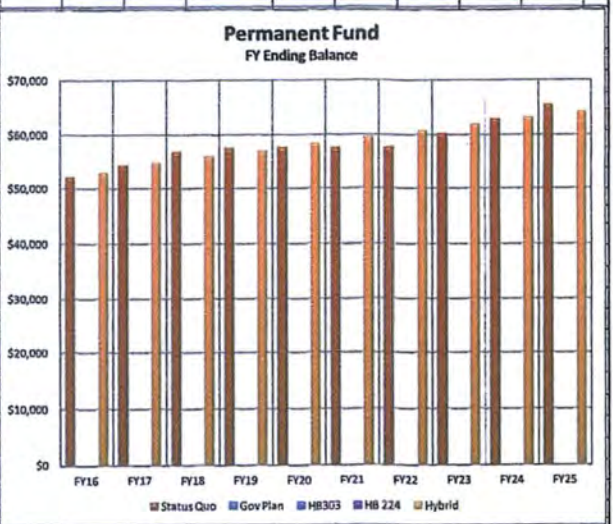
Distributed by the Senate State Affairs Committee - without \$/1000 PFD floo



Price Scenario		Fall 2015
COST VARIABLES		
Operating Budget		
Non-Formula	0.0%	
K-12 Formula	0.0%	
Medicaid Formula	0.0%	
Other Formula	0.0%	
Statewide Budget		
Revenue Sharing	30.0	
Debt Service	Existing	
Capital Budget		
Federal Match	207.0	
School Const/Maint	77.0	
Grants to Munis/Units/Recipients	30.0	
Deferred Maintenance	10.0	
Other Agency Capital	50.0	
40.0		
Target Budget Reductions (From Summary Sheet)		
REVENUE VARIABLES		
Sales Tax	n	
Income Tax	n	
Motor Fuel Tax	n	
Indirect Exp. Adjustments	n	
Gov's Tax Bills Package	n	
Gov's Tax Credit Reform	n	
Perm Fund Plans		
Gov's Plan	n	
	\$ 3,300	
HB303	n	
HB 224	n	
Hybrid	y	
Cut	\$ -	
Perm Fund Variables		
IP	1	
SQ Stop PFD if 0	1	
Dividend Floor	n	
Royalty %	n	
Inflation Rate	2.25%	
PF Investment Return	6.90%	
Percent Realized	70.70%	
Population Growth Rate	1.30%	



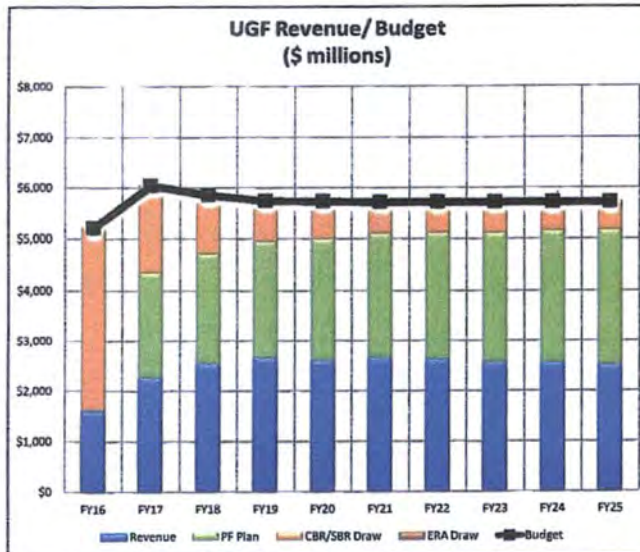
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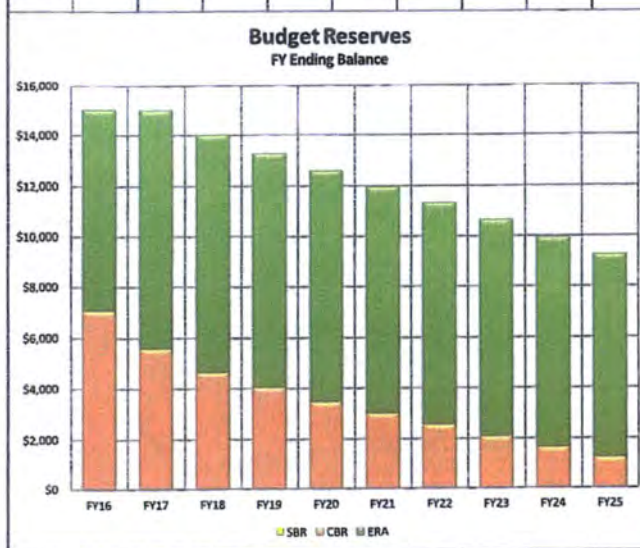
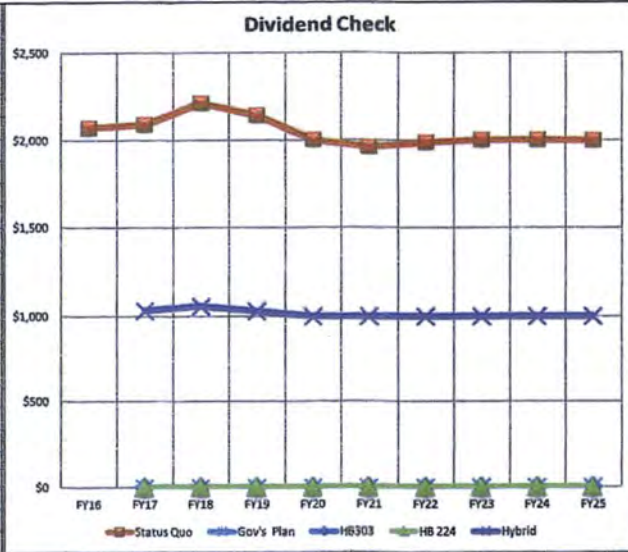
Hybrid Plan

POMV Payout	4.50%
Dividend % of 5 year average earnings	15.0%
Dividend % of prior year royalties	15.0%
Dividend % of CBR balance	2.0%
POMV Draw limit (of prior year approps)	110.0%

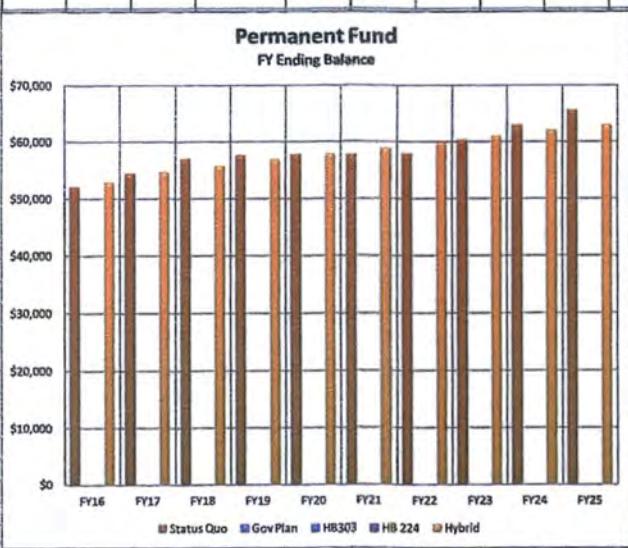
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HB 224	n
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Cut	\$ -
Perm Fund Variables	
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Royalty %	n
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Hybrid Plan

POMV Payout	4.5%
Dividend % of 5 year average earnings	15.0%
Dividend % of prior year royalties	15.0%
Dividend % of CBR balance	2.0%
POMV Draw limit (of prior year approps)	110.0%
PFD Floor	\$ 1,000

ALASKA PERMANENT FUND CORPORATION

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA
PERMANENT FUND CORPORATION RE-AFFIRMING THE BOARD'S
COMMITMENT TO A CONSTITUTIONAL AMENDMENT ESTABLISHING A
PERCENT OF MARKET VALUE ("POMV") SPENDING LIMIT
METHODOLOGY FOR THE ALASKA PERMANENT FUND**

RESOLUTION 04-09

In December 2000 and again in April 2003, the Board of Trustees ("Board") expressed by resolution its view, as the body with fiduciary responsibility for the management of the Alaska Permanent Fund ("Fund"), that adoption of a constitutional amendment to limit spending from the Fund by use of a "percent of market value" ("POMV") formula was in the long-term best interest of both the Fund and the people of the State of Alaska. In both resolutions (Resolutions 00-13 and 03-05), the Board encouraged the Legislature to consider and approve a POMV amendment that would permit an annual payout from the Fund of no more than five percent of the average market value of the Fund over a prior five year period.

Such a proposal was introduced during the now-concluded 23rd Legislature, but was not approved for presentation to the voters at the upcoming general election. The Board appreciates the support given this POMV proposal by Governor Murkowski and the support by the Legislature.

Despite the failure of the Board's POMV proposal to be placed on the 2004 general election ballot, implementation of a constitutional POMV spending limit for the Fund, with the accompanying benefit of assuring permanent inflation proofing of the Fund, continues to be a high priority policy goal for the Board.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees that the Board reaffirms its commitment to a constitutional amendment that provides for protection of the Fund by application of a POMV payout mechanism.

BE IT FURTHER RESOLVED that the 24th Legislature of the State of Alaska, in consultation with the governor and the Board, is again urged to consider and approve a proposal for a POMV spending limit.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 21st day of September, 2004.

*/s/ Carl Brady, Chair
Board of Trustees*

ATTEST:

*/s/ Michael J. Burns
Corporate Secretary*